

MPhil in Urban Planning

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Forms of interaction between financial and real estate markets: a perspective on Tokyo

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“I, Melania Cristina Stoica confirm that the work presented in this thesis is my own. Where the information has been derived from other sources, I confirm that this has been indicated in the thesis.”

Abstract

The current research project explores the role of urban planning regulations and the regulations of investments on the real estate market in attracting financial investments to Tokyo, a global city that plays an important role in the economy of Japan and the world.

The approach to building and land-use regulations as a form of societal control had constrained the investor's capacity to choose the spatial location of its investment, as well as reducing the investor's degree of freedom to build and use the real estate asset the way it best served the investor's interests.

The current research project attempts to reveal to what extent this approach is still the basis of local regulations, if and how regulations play a role in attracting investments by contemporary global real estate investors, since the profit-driven global real estate investor can find the most attractive investment property market in different local settings around the world (the study is concerned with where the investors choose to invest in property and not where they choose to locate their own office premises).

Exploring the interaction between the financial market and the real estate market can also be instrumental in guiding and informing the responsiveness of city planners and administrators to the ever expanding needs of financing the development of a global city.

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1. Introduction

The current project explores the role of local regulations in attracting financial investments in land and buildings, focusing on the city of Tokyo. The local government of Tokyo and the national government of Japan have attempted to develop the city over the last half a century through the development of its real estate market as financial investment market (Waley, 1997; Sorensen, 2005: 256 – 271).

I attempt to find out if the urban planning regulations (i.e. building code and land-use regulations) and the regulations of financial investments on the real estate market introduced by the national government of Japan and the local government of Tokyo had any role in attracting investments from global and local (Tokyo-based) financial institutions (i.e. banks, insurance companies, pension funds, etc.). The regulations of financial investments on the real estate market include, but are not restricted to, variations in fiscal regimes, such as taxation or subsidies, or tenure laws and conventions, such as character of lease obligations, responsibilities for repair and insurance, or introduction of specific investment instruments and

vehicles, such as J-REIT or special purpose companies or debt instruments, such as bonds secured on real estate).

The study case of Tokyo provides an illuminating comparison between this traditionally conservative and close economic environment (Waley, 1997; Douglass, 1993) and the evolution of real estate markets (particularly their opening to financial capital) in other parts of the world, such as Great Britain and the United States.

For the first part of the 20th century, the real estate investors in Great Britain and the United States had been real estate development companies. Their investments had been constrained by the building and land-use regulations, as a form of societal control, influencing the investor's capacity to choose the spatial location of its investment, as well as reducing the investor's degree of freedom to build and use the real estate asset the way it best served its interests. The land and building ownership, as well as the control that it provides over the spatial conditions of production of goods and services, enable the owner of real estate assets to exert a significant influence over urban spatial framework (Harvey, 1985). Therefore, regulations that govern property and development rights have a strong

influence on the capacity of the real estate owner to develop and promote its own economic and political interests.

According to the literature that looks at markets as cultural constructions (Guy and Henneberry, 2000, 2002; Pryke and Du Gay, 2002; Smith et al. 2006), the real estate investment regulations, as well as the urban planning regulations, are the by-product of local environment, incorporating rules and norms that shape investment behaviour. The process of planning existing in various national settings attempts to capture and represent the social and political aims of local communities and frame the urban space according to these aims. An urban space regulated in a certain way will allow for certain types of investments and behaviours while denying others, exactly as the partitioning of a built living environment, or the layout of a neighbourhood, allow only for certain types of behaviours and activities (Jacobs, 1961). From this perspective, space is a social construction, reflecting the identity of a given society, while its long-lasting character shapes the self-image of individuals, their values, their way of understanding the world, ultimately their living and working conditions (Harvey, 1985).

Contemporary cities are unique settings, based on their own traditions and their local cultural identity. This uniqueness is also reflected in their economies. We view places as the products of the society in which we live (Massey and Jess, 1995). The global is constituted by the wider set of social relations and interactions, embodying the uniqueness and the interdependencies through which the various local elements are constituted and interconnected (Massey and Jess, 1995). The global is held together by the trading patterns, investment flows, cultural influences, the millions of spatially-organized social practices.

The project attempts to find out if Tokyo's real estate market has opened up to financial investments, including from foreign capital, given the importance of this city in the global economy, if its real estate regulatory framework, shaped by a long history of collaboration between various levels of government and its business establishment (as I will show later), has adapted in order to attract financial investments into land and buildings.

Financial institutions, such as investment banks, insurance companies or pension funds, became gradually interested in diversifying their investment opportunities after the Second World War. Real estate assets

became an attractive investment opportunity, as I will show later. The global ownership of real estate assets became possible with the advent of financial capital from the financial markets into the real estate market; firstly into the national real estate markets, and then becoming globalized, across the decades. The globalization of real estate financial investments was facilitated by the removal of controls on capital flow between countries and also the removal of barriers to foreign ownership of land/property. The project explores how this complex, long-term process of capital divergence into real estate assets, has evolved in the case of Tokyo.

Because the most important investors on the global real estate market have long been real estate investment companies (Pryke, 1994), the current research project attempts to explore to what extent the local regulations governing real estate investment open up local markets to global investors. The contemporary economic globalization, characterized by increased capital mobility and a diversification of investment opportunities on a world scale, plays a role in changing the nature of investment from local ownership - local use to global ownership - local use of real estate, while this change itself has repercussions on how investments are made. The

exploration of the role of local regulations in attracting financial investment on the real estate markets of important global cities can bring a contribution to the understanding of the evolution of contemporary cities.

Given the global nature of investment, the need to finance the development of building and infrastructure in a contemporary city has to be balanced against the pressures generated by the global economy. Global ownership poses serious challenges to the effectiveness of building and land-use control at local level, given both capital mobility and the economic and political pressures it can generate in a given urban environment.

The study case of Tokyo, a financial hub of today's global economy, could show if the economic and political goals pursued by the global owners of real estate are different from those of the more local/national entrepreneurial classes of the early 20th century, who had traditionally used urban landownership for industrial purposes in order to promote their interests (Kivell, 1993).

The next chapter will present various approaches in the literature to the development of the real estate market as a global investment market in International Financial Centres, while the third chapter will present the

methodological aspects of this project, highlighting their theoretical relevance in the context of the literature focusing on the interaction between the financial market and the real estate market. The fourth chapter will provide an exploration of the evolution of the real estate market of Tokyo, how the regulations evolved over time in order to meet the development needs of the city and how financial investment became increasingly important for the development of the real estate market. The fifth chapter will further present the case of the local corporation Mitsubishi, which plays an important role on the real estate market of Tokyo, owning, developing and managing assets, while also offering financial investment services.

The last chapter will finally draw some tentative conclusions regarding the role of local regulations of the real estate market in developing the real estate market of Tokyo, highlighting their theoretical relevance in the context of the literature reviewed in the current project.

2. Literature review: real estate, finance and regulations:

2.1. Converging markets: real estate and finance

The contemporary economic globalization, characterized by increased capital mobility and a diversification of investment opportunities on a world scale, changes the nature of investment making. Previous studies of real estate industry had focused mainly on the relationship between rule structures, institutional arrangements and transacting, the nature and characteristics of the investment market for real estate in different countries (Ball et al., 1998; Fainstein, 1994; Seabrooke et al., 2004). The current project builds on the insights of this literature, but attempts to also find out whether local market regulations (national government and city government laws and by-laws) have any influence in attracting real estate investments from property and financial institutions that invest globally.

The financial institutions have been direct and indirect investors in real estate assets and their changing investment requirements have influenced the provisions of commercial building regulations (Pryke, 1994).

Currently, the real estate sector is strongly connected to the financial sector, while real estate demand actually means “demand by financial institutions for investment purposes” (Healey, 1994).

Different stages of capital accumulation have marked important moments in the development of a global real estate market, such as the petro-dollars of the 1970s, which had been invested in London’s real estate market, and the Japanese trade surpluses of the 1980s, which had been invested in Tokyo and abroad, particularly in North America (Edgington, 1988).

However, the decisive factor leading to an increased diversion of capital towards the real estate market (and the creation of a global real estate market) had been facilitated by the economic realities of the United States, particularly the decline of its financial market: the US stock market went through its worst two-year period since the Great Depression, losing more than 40% of its value between 1972 and 1973. This severe depreciation led to an increasing need for investment vehicles that would perform better than the stock market. The real estate market became an attractive investment option.

The 1980s are also particularly significant for the changing nature of real estate investment. The number of real estate advisers employed by financial companies grew from 15 to 70 in the United States during the 1980s, testifying to the growing importance of real estate assets as complementary alternatives for other types of investments (Seabrooke et al., 2004). Asset allocation recommendations often suggested investing up to 20% of a fund's assets into real estate (Seabrooke et al., 2004). The interest of financial institutions in investing in real estate markets became more visible during the 1990s, as a result of capital markets deregulation, abolition of exchange control and securitization of real estate investments (Coakley, 1994). Clearly, regulatory changes played an important role in making local real estate markets more attractive for investments from financial institutions operating locally. The current research attempts to find out if national and city governments have implemented regulatory changes in order to also attract foreign investment, given the contemporary global mobility of capital.

The financial institutions became increasingly interested in owning overseas real estate during the 2000s, mainly through two forms of ownership. For direct exposure, investors may hold direct equity stakes in

land and buildings alone or with a partner, through a joint venture scheme. For indirect exposure, investors may purchase shares in firms that develop or invest in real estate, such as REITs, real estate companies or debt instruments, such as bonds secured on real estate or securitized real estate debt, or may invest in real estate derivatives. According to the choice of vehicle, the investment depends on the geographically localized real estate factors or national economic factors (Ball et al., 1998).

Historically, real estate investment has been largely local and domestic focused, with high prices of class – A offices making investment difficult for smaller investors (Lizieri and Pain, 2014: 445). However, the investment market has become increasingly uniform as a result of the globalization of economic activity (Ball et al., 1998) and the real estate market has transformed as well over the last decades, due to a series of factors that turned city office buildings into an increasingly attractive investment portfolio option: increased levels of global real estate investment, a process of innovation in investment vehicles, enabling a larger number of investors to acquire commercial real estate as investment assets, as well as the gradual development of securitization of property debt markets (Lizieri

and Pain, 2014: 445). The increased level of global real estate investment by financial institutions is the outcome of the medium-risk nature of property as an investment asset, with returns expected to be between those offered by equities and those offered by bonds (Baum and Hartzel, 2012: 20). In addition, commercial real estate that is located in the central business districts of cities is particularly attractive, given its central location, which guarantees a constant demand and therefore a high value, as compared to real estate located in the city peripheries.

Today, the main global real estate investors are pension funds, insurance companies and sovereign wealth funds (government funds), clearly indicating a “financialization” of the global real estate market (Baum and Hartzel, 2012: 6). The interconnectedness of International Financial Centres, which act as coordinating centres for an interlinked system of international financial flows (Lizieri and Pain, 2014: 440), the role they play in the global economy and their acting as a business hub and entry gate into local economies, made class – A office buildings in IFCs particularly attractive for financial investors, who chose to diversify their investment portfolio on a global scale (Lizieri, 2009). Indeed, there is a notable

concentration of office investment in global financial cities as compared to other cities, as eloquently shown by Lizieri and Pain (2014: 447), using data provided by Real Capital Analytics (RCA), which covers commercial real estate investment transactions for 2007–2010 and the first quarter of 2011.

Through their international interconnectedness and the volumes of international transactions, IFCs attract international companies that have global outreach to establish their main offices, as well as provide the necessary physical and economic environment for the headquarters of specialized professional and business service companies. In turn, this leads to an actual ranking of world cities according to their status of “basing points” and “command points”, receiving and sending financial flows on a global scale (Lizieri and Pain, 2014: 440). Real estate assets, such as class – A office space, become an attractive investment opportunity for systemic capital flows, providing the immobile fixed infrastructure needed by transnational companies.

IFCs also have a greater concentration of cross-border activity than those economically vibrant cities that lack international exposure, although it is unclear which is more important from a comparative perspective: the

scale or the proportion of international activity (Lizieri and Pain, 2014: 442). In this sense, the case of Tokyo in modern times is illustrative: despite its city status of a global economic hub, it is dominated by domestic transactions and capital (Lizieri and Pain, 2014: 442). Other secondary sources document the same peculiarity of Tokyo: a global economic hub where local capital is still dominant (Douglas, 1993; Waley, 1997). The empirical findings of the current research, presented later in the thesis, are resonant to this literature.

The strategic ownership of foreign-based real estate assets has been generally common on international markets, but the global scale investments in real estate as portfolio assets is a relatively recent phenomenon. The impact of the changes in the securitization of the debt market, in the innovation of financial instruments and the global diversification of investment portfolios has had a profound effect on IFCs office markets, blurring the traditional distinction lines between ownership, occupation and the financing of office space (Lizieri, 2009). The property and financial markets became integrated. One consequence of this recent development is that the financialization of property generates systemic risk, as shocks in one

area of the property market are transmitted throughout the global economic system.

This reality can be seen most clearly in IFC office markets, where real estate developments require complex finance and funding arrangements, which are provided by financial investors. Those same investors are the occupiers of space in IFC office markets, as owners or, more generally, as tenants. Thus, rents and capital values are linked to the performance of international financial firms and the demand for office space they generate.

The same firms choose a variety of investment venues when investing in buildings located in IFCs: direct acquisitions for their investment portfolios, indirect acquisitions through investing in funds that acquire buildings, holding shares of the major property companies owning and/or building the assets or by investing in securitized debt products, whose underlying cash flow and security is based on office buildings. Those investments are significant parts of the asset holdings of the financial firms and are used as collateral for their operational activities – including property lending. Thus, the occupier, supply and investment markets are

interconnected, therefore increasing the risk of swings in values (Lizieri and Pain, 2014: 446).

The findings of the current research project are entirely resonant with this literature. The case of Tokyo is illustrative of the interconnection of ownership, use and finance, given that major local corporations are involved in all types of investments, while acting as entry points for foreign capital through offering shares or securitized debt products to foreign investors, while also building and managing assets themselves.

This new reality of financialization of the global real estate market, the blurring of distinction lines explained above, lead to a situation where investment return volatility is linked to the global financial status of the investment location. There is a strong common factor in city office market investment returns, with the return strength being correlated to the degree of integration with the global financial and producer services networks (Lizieri and Pain, 2014: 452). Real estate returns are under the influence of rent cycles (Baum and Hartzel, 2012: 22) and global property markets in turn are influenced by the real estate cycles (Baum and Hartzel, 2012: 30-92), with

the expected contagion effects (shocks in one investment location leading to effects in other locations).

In the case of Tokyo, during and in the aftermath of the recent economic crisis, the volatility of return for financial investments on the real estate market has not been as high as it was in Europe, as evidenced by Lizieri and Pain (2014: 452). This is precisely because of the city's particular status of global hub, whose real estate market is still dominated by local companies acting as builders, investors, suppliers of capital or securitized products for foreign investors, sometimes all these simultaneously, as revealed by the interviews and questionnaires the current research is based on.

Lieser and Groh (2014: 612) provide an eloquent comparative exploration of factors affecting international real estate financial investments. They test the importance of economic activity, real estate investment opportunities, depth and sophistication of the capital market, investor protection and quality of legal framework, administrative burdens and regulatory limitations, socio-cultural and political environment (Lieser and Groh, 2014: 613 – 616) as independent variables potentially affecting the

direct or indirect investment of a global financial investor in a foreign real estate market.

All these factors are relevant for the study case of Tokyo, as I will show in more detail. Tokyo gained its IFC status through its high levels of economic activity and the need for a constant supply of office space (therefore offering real estate investment opportunities). Despite its IFC status, Tokyo's socio-cultural and political environment, as by-products of historical legacies cementing the relations between the major local corporations and various levels of government, influenced the administrative and regulatory framework of real estate investment. The findings of the subsequent chapters of this thesis are resonant with previous literature that questions Tokyo's openness to foreign capital, despite its IFC status. Also, the REIT market of Tokyo (according to the definition offered by Lieser and Groh (2014: 612) an indicator of depth and sophistication of capital market) is not as developed as in other IFCs, as revealed by the research questionnaires and interviews, as I will show later.

2.2. Markets as social constructions: the role of local regulations

Inspired by the issues raised by these different strands of literature, the current project explores the role played by local specificity, embodied in local regulations governing the real estate market. Social practices are the foundation of the production of capital in global cities (Pain, 2008). As literature has eloquently shown, the mobility of a transnational investment community can lead to mimetic behaviour, rather than being driven by return on investment calculations, when clustering investments in IFCs (Lizieri and Pain, 2014: 452). The “recursive relationship between actors and markets” (Baum et al. 2000: 294, quoted in Lizieri and Pain, 2014: 452) is an important factor in understanding that global real estate financial investments are not necessarily driven by rationality.

Literature explores the importance of local factors in influencing investments (Guy and Henneberry, 2000; Pryke and Du Gay, 2002; Smith et al., 2006) and from this perspective, markets are cultural products and rational economic calculation is not the only factor driving investments. This

view is resonant with the view of space as a social construction that reflects the identity of a given society (Harvey, 1985).

The literature exploring the role of regulations has focused on the role of the state as a mediator and facilitator among actors active on the real estate market, through urban planning and financial regulations, as well as through financial support for direct real estate development (Healey, 1994). The state as a regulator structures the relationships among owners, investors, developers, traders and advisors.

From the 1980s onwards, the Japanese urban policy was designed in such a way as to enable the financial service industry to play a key actor role in the economic regeneration of the country's depressed economy. The physical inheritance of the heavy industries, such as derelict industrial production sites and unused land, was gradually replaced by new urban structures, more appropriate for the post-industrial economy, such as office buildings, transportation hubs and retail commerce buildings. The process involved a strong collaboration among local real estate developers, real estate asset owners and investors from the financial industry, as I will show later.

Urban planning regulations are a form of control over the layout and design of urban spaces (Ratcliffe, 1996). From this perspective, the act of planning represents the efficient allocation of resources, such as land, while taking into account the nature of the built environment and the welfare of society. Government agencies have an important role not only in designing and upholding the regulations, but also in shaping the real estate market: they define and protect real estate, organize and enforce a legal system, provide protection for owners and regulate the use of real estate, administer real estate taxation, facilitate financing and in some places insure and guarantee mortgages (Weimer, 1960).

Lieser and Groh (2014) also produced evidence supporting this view of government shaping the real estate market, by testing the importance of regulations for offering investor protection and ensuring a quality legal framework, as well as the influence exerted by administrative burdens, regulatory limitations, socio-cultural and political environment on the actual financial investment in real estate assets.

Local governments regulate real estate business directly through tax policies, zoning and planning regulations and building codes. The

government can have different roles in regulating different aspects of the real estate market in different cities. The regulation authority can be shared among the national/federal government, state/prefecture government and city/sub-city councils.

The role of government regulation of the real estate market is paramount in the case of Japan, where various types of regulations affected the real estate market: building height and sunshine regulations, protection of rice paddies, a level of taxation of capital gains at the moment of sale significantly higher than annual real estate taxes (Takagi, 1993).

An important change to building regulations during the 1970s had had significant long term impact on Japanese cities in general, on the creation of the Central Business District of Tokyo in particular (Sorensen, 2005). The Building Standards Law (1970), required by the City Planning Law revisions (1968), improved building technology and made it technically possible to build earthquake-proof high-rise buildings. The absolute building height, previously restricted to 30 meters, was abolished in 1970 (Sorensen, 2005), resulting in a boom of high-rise building development, for commercial and condominium purposes. This landmark regulatory change also had a

significant impact on the development of the Central Business District of Tokyo, making it possible to develop high office buildings that provided office space for commercial purposes.

While the revision of urban planning regulations played a major role in stimulating the development of office buildings, the regulations facilitating the transfer of capital from the financial market to the real estate market played an important role in the convergence of these two markets since the 1980s.

The Japanese Ministry of Finance revised the Foreign Exchange and Trade Control Law in December 1980, liberalizing foreign security investments. Many restrictions, such as the share of foreign assets as percentage of total assets and foreign assets as a percentage of new investments made each month, were kept in place in view of the investors' severe lack of experience of investing abroad, and relaxed only gradually over time (Takagi, 1993).

From the 1980s up until the 2000s, the Japanese government promoted various regulatory changes, introduced investment tax incentives and new investment instruments, encouraging the diversion of capital from

the financial market to the real estate market, as well as attempting to attract foreign capital investments in Tokyo's real estate, as I will show later.

I will attempt to find out if indeed urban planning and market regulations meant to support urban development and provide new investment opportunities for the financial sector (and ultimately for individual clients of pension funds, insurance companies, saving banks) have led to an overinvested real estate market through convergence with the financial capital market. I will also attempt to find out whether or not the global financial crisis had any effect on Tokyo's real estate market.

Harvey (1982) provides a meta-theoretical explanation for the economic crisis, explaining how the divergence of capital through different circuits of the economy affects the real estate market and can ultimately lead to crisis. Funneling large amounts of investment capital from the financial market to the real estate market across the last century (and increasingly so over the last few decades) has led to the effect predicted by Harvey (1982, 1985, 1999), namely overinvestment in the built environment and ultimately to crisis.

Harvey (1982, 1985, 1989) provided an eloquent exploration of the specificity of landed real estate, relevant for understanding the nature of the built environment, the role of the state in regulating the credit system and markets for land, the role of foreign trade in generalizing the logic of capital, and the uneven geographical development of the world market. This literature focuses on a combination of factors that explain the interaction between regulation and investments: state regulations of urban space and real estate market, the financial market drive for profit and the flight of capital into the built environment, the structuring of power through the creation of a specific urban space, the global potential of crisis.

Capitalism is characterized by recurring crises, which in turn are the outcome of over-accumulation of capital and the unprofitability of some of its investments. One temporary solution to crises is the flow of capital through investment in the built environment, the urbanization itself being a necessary feature of capitalism (Harvey, 1982, 1985). When this process is successful, the built environment itself may become overinvested in and act against further accumulation because of its spatially fixed character and the long periods of time it takes to amortize investments.

Harvey's (1982) distinction between fixed and circulating capital, and the tendencies to crisis is eloquently illustrated by the findings of Lizieri and Pain (2014: 452), who show how real estate plays an important role in the spatial fixing of capital. Capital eventually leads to crises contagion from the financial market into the real estate market. The globalization of investment connects the instability of office markets to global capital markets. IFCs that receive large amounts of investments into their built environment, particularly in A-class office space, are thus exposed to the crisis contagion generated by international financial markets.

The perspectives of Harvey (1982, 1985) and Lizieri and Pain (2014) on the convergence of financial markets and real estate markets, on the overinvested built environment and crisis contagion from one market to another are relevant for the current project, which focuses on the interaction among Tokyo's real estate market, its financial market, foreign capital and the local regulatory environment.

3. Methodology: conceptual and empirical clarifications

The current research explores the role played by real estate regulations in attracting investments in real estate. It focuses on the real estate market regulations as well as urban planning regulations that define the ownership and use conditions of real estate assets (office buildings and land for the development of office buildings) in the Central Business District of Tokyo. The key research question is: do local regulations (real estate market regulations and urban planning regulations) play a role in attracting financial institutions to invest in a given market?

The independent variable local regulation is defined as a set of two other variables: real estate market investment regulations, on the one hand, and urban planning regulations, on the other hand.

The real estate market investment regulations will be evaluated according to the following: variations in fiscal regimes (i.e. taxation or subsidies), tenure laws and conventions (i.e. character of lease obligations, duration, rent review/indexation, privity, responsibility for repair and insurance), other locally specific regulations, such as the treatment of

depreciation. The urban planning regulations will be evaluated according to the building code and land-use regulations.

Local ownership is defined as ownership of real estate assets by a company headquartered in its country of origin, in the nation investigated as case-study (i.e. a Japanese company headquartered in Japan and investing in real estate in Japan), while global ownership is defined as ownership of real estate assets by a company headquartered in some other country but investing abroad, in the city of Tokyo investigated as case study.

3.1 Conceptual clarifications: types of real estate markets, institutional investors and investment vehicles

3.1.1. Types of real estate markets

The research looks at markets as cultural constructions (Guy and Henneberry, 2000, 2002; Pryke and Du Gay, 2002; Smith et al. 2006). The local regulations are the by-product of local environment, incorporating rules and norms that shape investment behaviour. The global nature of financial real estate investments is expected to act as an incentive on urban regulators to create a regulatory regime that is attractive for global finance.

What is broadly defined as the real estate market is actually composed by a multitude of markets differentiated by type of real estate, location or motive of acquisition. From the perspective of differentiation of real estate markets by type and location, the research focuses on land (the right to own the land under the real estate asset with a purpose of redeveloping or collecting rent) and office real estate located in the Central Business District of Tokyo. The reason of selecting these two types of assets is that the central business district office is considered an attractive acquisition by investors, resulting in premium prices. Office buildings accommodate the defining activities of financial globalization – the financial and business service enterprises – and the state apparatus.

From the perspective of differentiation of real estate markets by motive of acquisition, there can be further distinguished three market types: of use, development and investment. The current research focuses on the last type of market, which presented attractive investment opportunities in the contemporary global economy, given the increased capital mobility. The local urban planning regulations had been designed when local ownership of real estate had been largely accompanied by local use by owners or tenants,

particularly until the mid-20th century. The contemporary financial institutions that invest in real estate assets own the assets without actually using all or any of them.

3.1.2. Institutional investors

The current section offers a brief typology of institutional investors and the attractiveness of securitized real estate products because the most important investors on the global real estate market are financial institutions (Pryke, 1994).

The actual real estate investments can be classified as direct and indirect investments. The former implies the ownership of the physical asset, while the latter are comprised of securities, such as real estate company shares, unit and investment trusts, mortgages and loans. On the one hand, the real estate development companies are interested to invest directly in real estate, particularly in land, for the purpose of developing urban projects. Their motive of acquisition is to develop a project that will be used after its completion in order to capture a capital gain or will be rented out in order to draw a flow of profit.

On the other hand, institutional investors are the financial institutions (i.e. banks, insurance companies and pension funds) for whom the real estate securitized products present specific advantages. The ownership of securitised units exhibit higher liquidity and can be easily sold and converted into cash, in contrast to direct investment in real estate, in which case liquidity is not easily available. The management of the real estate asset, as well as the actual investments, are often contracted to corporations or consultants that have expertise in these areas. Financial techniques that structure the securitization allow the possibility of mitigating risk associated with investing in real estate. Securitized real estate also allows for diversification across multiple real estates.

These are ideal type categories that help to understand the relationship between the investing party (be it developer or investor) and the real estate asset. The actual reality of real estate investments is also comprised of companies combining both roles, investor and developer, as well as other types of real estate owning organizations, such as church, state, non-profit or profit-yielding trusts.

Institutional investors play an important role on the real estate market, as proved by the volume of investments, the total value of assets and the distribution of this value across assets classes. In Japan, the total asset value of real estate owned by corporations, individuals and public sector including state-run and local authority-managed companies was about 2,300 trillion yen in 2007 (MLIT, 2008).

A large percentage of the total asset value is housing owned by households. The value of corporate-owned real estate (both owner-occupied properties, such as the properties where corporations have their production, their offices, their shops, their storage, and the investment ones) is 490 trillion yen (approximately 21% of total), within which 68 trillion yen (about 3% of total) represents the profit-earning real estate such as rental offices and commercial facilities. The value of securitized real estate is 33 trillion yen (about 1.5 % of total) (MLIT, 2008).

3.1.3. Investment vehicles

When considering the acquisition of buildings, institutional investors invest their resources in marketable securities by using investment vehicles, which can be broadly categorized into two main types. The first is the asset liquidation scheme, which consists of real estate and other assets being transferred to pooled investment vehicles, such as the Special Purpose Vehicle (SPV), which issues negotiable instruments supported by income from the real estate and other assets. Real estate management or investment companies buy equities issued by the SPVs, while financial institutions offer non-recourse loans to SPV with profit obtained from enforcing a security interest in real estate, while making corporate (with recourse) loans as well. In the case of the latter type of investment vehicle, the funds are raised through non-recourse loans and private placements to institutional investors.

However, a second type of investment vehicle has been introduced recently in many countries in order to allow better for the participation of individual investors. It represents the asset investment scheme where an investment fund, such as the Real Estate Investment Trust (REIT) and the

Real Estate Investment Fund, is established by issuing negotiable instruments to raise funds from investors and invests the funds in real estate of an identified type chosen by the fund managers. The main purpose of these vehicles has been to reduce tax liability for at least some categories of investors (not just individuals). These investment vehicles had facilitated the influx of significant investments from the financial market to the real estate market, leading to what Harvey (1985) calls an “overinvested” built environment, eventually contributing to the current economic crisis that had started in the real estate market.

3.2 Empirical research clarifications

While undertaking field research in Tokyo, I have used a sociological/qualitative approach (a questionnaire followed by semi-structured, in-depth, face-to-face interviews). The questionnaire is based on the relevant literature (Ball 1998, Coakley 1994, Harvey 1999, Wyatt 2007) and is organized in two broad categories of questions regarding general information on the institutional investor profile and an overview of the investment management process. Within this second category of questions, some aim at establishing the importance of local regulations (urban planning

and real estate market) for the investor, while others, for comparison purposes, explore the importance of market factors in the investment process.

I chose a simple “yes - no” structure of the questionnaire in order to increase the chances of obtaining as large a number of responses as possible, after an initial questionnaire design that used open-ended questions, which had a low rate of response, given the short time the respondents could dedicate to answering the questions more extensively, most of the respondents holding managerial positions in their companies and organizations.

The questionnaire had been emailed before the interview took place, filled in advance and discussed during the actual interview, with in-depth comments recorded where necessary, regarding each of the investment criteria mentioned in the questionnaire. Some of the respondents chose to email back the questionnaire with their answers, without following up with the face-to-face interview.

Initially, I have e-mailed the open-ended questionnaire to 49 potential respondents, from of whom I received only 12 responses. After redesigning

the questionnaire, using close-ended questions, I have emailed it back to the same 49 potential respondents, this time obtaining 36 returned questionnaires.

All the respondents chose to answer only those questions that were relevant for their company or institution. The reason for this situation, as explained by the respondents who were personally interviewed, is the corporate hierarchy culture, which is strong in Japan. This corporate culture led to a situation in which the lower ranking respondents were reluctant to answer the questionnaires and provided only partial and brief information.

I attempted to overcome this field research shortcoming by asking for direct interviews with some of the respondents who held more important managerial positions in their respective companies or institutions. Eventually, seven respondents accepted to follow up with the direct semi-structured interview. The respondents who accepted the direct interview were asked to offer more in-depth comments on each of the investment criteria contained in the questionnaire: investment strategy, preferred investment vehicle, preferred types of real estate assets, and allocation of real estate assets in

the investment portfolio, real estate appraisal, government regulations and policies that pertain to real estate investment.

The interviews lasted for approximately one hour and are transcribed, while the completed questionnaire is kept for the record. The relevant answers are summarized in the thesis section dedicated to interviews, in Chapter 4. I have identified the respondents only by their positions in their companies and the company type. The interviews were recorded through detailed notes taken at the time.

The interviewees had different roles in their respective institutions (director of investment group, director of compliance and risk management department, vice-president of real estate investment banking division, managing director, director of research, director of land and real estate market division, group leader and chief project manager).

The companies selected had diverse positions related to the real estate market: two real estate investment management firms, one asset management firm, one real estate investment banking division, two real estate research institutes and one central administration entity. A more detailed description cannot be presented because of the level of

confidentiality agreed with the interviewees, who specifically asked not be identified by name or by their company; a list of their respective positions is provided in the Annex.

The difficulties encountered while conducting field research had been the secrecy culture of the local real estate industry and the reluctance to discuss the realities of the local market, the unavailability of primary source data in English language regarding the volume and types of investments in real estate, particularly since the 1960s and 1970, the time when the real estate market started to develop as an investment market, as well as the cautiousness of public institutions towards inquiries for information coming from foreign researchers.

I had attempted to overcome these difficulties by corroborating information (where available in English) from a variety of sources, such as the government of Tokyo (municipal government), the Ministry of Land Infrastructure and Transport, public-private partnership projects of urban revival and real estate development.

The interviewees who responded to the research questionnaire had been selected according to the importance of their investment institution in

their respective home real estate market, as well as according to the position of the interviewed individuals in their respective institution.

The companies were selected after careful consideration of data concerning their position on the home real estate market, such as investments in real estate measured by assets shown on the balance sheet of the company, the company being listed on the stock market and annual total value of investment in real estate.

The companies selected were global investors in real estate, and companies that invest only on the local market, for comparison purposes.

The current research reviews the development of the real estate market of Tokyo, including data regarding financial transactions where available, particularly data from 2000 to 2010, in order to gain a first-hand assessment of any trends across time. The research focuses on institutions that usually are familiar with both types of investments, direct and indirect, since they own and manage the real estate assets.

The current research also offers a more extensive presentation of one major national company that invests both locally and abroad: its real

estate investment history, investment strategies and current role on its local market. More in-depth interviews have been organized with a representative of this company: Mitsubishi. The representative companies composing the Mitsubishi Group, respectively Mitsubishi Estate and Mitsubishi UFJ Securities were selected for the study since they represent the leading investment companies on the local Tokyo real estate market dealing with both direct and indirect investments in real estate.

4. From local to global: the role of regulations in developing Tokyo's real estate market as an investment market

4.1. Urban planning and real estate market development across time

A number of factors have been taken into account when selecting Tokyo as a study case, in addition to its global city status. Amongst them, the most important is the local influence it plays as capital city of Japan: it developed as a great port and has been acting as centre of international trade for a long time. Furthermore, one of the world's most important financial markets is located in Tokyo. The current integration of the world economy heightened the status of Tokyo as a global city, as the worldwide investment opportunities of its dominant financial industries increased (Sorensen, 2005, 2010).

At the same time, globalization threatened its status through the challenge of competition from other aspirants for their economic niche (Fainstein, 1994). Tokyo competes with other global cities, such as London or New York, to maintain a dominance as financial centre, mainly because

financial and business services contribute a disproportionate share of the national GDP and are seen as one of the leading edges of contemporary economic growth (Hamnett, 2003).

A historical perspective on the economic and symbolic importance of land in the Japanese society is useful in order to understand the complex interaction between State and society. This interaction plays an important role in cementing the close ties between the national and city governments, on the one hand, the Japanese companies, on the other, the influence of property rights on the way the real estate market evolved across time, as well as the way the national government devised regulations supporting the divergence of financial capital into the real estate market.

As I will show later, there is an apparent contradiction between the government drive for development and internationalization, while the foreign ownership of real estate assets has been historically limited. This contradiction can only be explained through the understanding the strong local character of the Japanese real estate market, based on a history of strong property rights and close ties between local businesses and government.

Land ownership and land profits have perennially occupied a pivotal place in the Japanese political economy, with land long understood to rise perpetually in value (Sorensen, 2010: 282). Japan experienced its second modern critical juncture under the post-Second World War US led occupation, which instituted a thorough reform of many key institutions, including the constitution, the electoral system, education, the police, local government and land ownership. This period is widely considered by Japanese scholars to have been equivalent in transformative scope to that of the Meiji restoration (Sorensen, 2010: 287). In terms of property rights, two reforms stood out: the major changes to the constitution, including a rewriting of the property rights clause, and the agricultural land reform.

From a broader historical perspective, four key historical moments had marked the real estate market development of Japan: the introduction of the first City Planning Law and Urban Buildings Law of 1919, the New City Planning Law of 1968, the New Basic Land Law of 1989 and Landscape Law of 2005. Each of these contributed to the gradual restriction of historically strong property rights (Sorensen, 2010: 290).

City planning interventions for shaping urban space can be divided conceptually into two main strategies. One is the planning and building of public infrastructure: roads, water supply, sewers, parks, libraries and other community facilities. Another is the regulation of private land development. The first strategy has been routinely employed since the earliest cities of Japan, although the scope and range of activity expanded greatly during the twentieth century. The widespread and systematic use of the second strategy is entirely a product of the twentieth century, although with many precedents, such as restrictions on building with flammable materials (Sorensen, 2010).

After three decades of debate about a building code and planning regulations, during which the government displayed great reluctance to regulate urban building or development, the first modern planning law was finally passed in 1919. Although the City Planning Law introduced a land use zoning system, it had very little impact on land use as most land uses were permitted in every zone, including housing in industrial zones.

The first major overhaul of planning legislation after the passage of the 1919 City Planning Law was the New City Planning Law of 1968 (Sorensen, 2010: 292). The new planning system included a new zoning

code that created, for the first time, an exclusive residential zone that was primarily for housing and an exclusive industrial zone that was primarily for heavy industry.

The 1970s restrictions on land use applied primarily to urban fringe areas, as most existing urban areas retained their previous less restrictive zoning. Two other new systems that constrained property rights were the development of the building permission system and a new urban growth boundary (UGB) system. The development permission system was hailed as the major innovation in 1968, as for the first time local governments had the legal power to require contributions to local public goods, such as roads and sewers, in return for a permit allowing the development of land from rural to urban use. Although significant loopholes allowed most development to escape such obligations, this was a precedent setting limits on the formerly unregulated right to develop farmland to urban use (Sorensen, 2010).

Another major new planning instrument, the District Plan, was introduced in 1980. It allowed municipal governments, for the first time, the legal authority to regulate the design of street layouts for land development and redevelopment, and detailed regulation of built form.

Such detailed planning had been carried out by subdivision control, secondary plan and site plan regulations in North America, and by discretionary planning control in the UK, but had been considered too great an interference in property rights in Japan. This restraint was still reflected in the District Plan system: the government considered it inappropriate to implement a District Plan, unless almost all affected landowners provided their written consent (Sorensen, 2010).

This increased government concern with urban development and the legal status of property rights had been reflected in the evolution of Tokyo's real estate market, which was also strongly connected to long-term national economic trends. The first major changes in the relationship between the real estate market and the rest of the economy emerged during the early 1970s, when Japan experienced an increased corporate control over the economy, with a first major price hike in real estate, leading to speculation and concentration of ownership (Douglas, 1989: 87). By 1974, private corporations owned half of all non-government land in the 3 business quarters of the city, while the 20 square km of land in the inner city was owned by the top one hundred corporate owners and much of it by six

leading corporations: Mitsubishi, Mitsui, Marubeni, C. Itoh, Sumitomo and Nissho-Iwai. Together, they owned about one fourth of the natural resources of the entire country (Douglas, 1989: 87).

Given the previous history of Tokyo as a city of small shops and petty commodity producers, the ownership structure of real estate assets in the 1970s represented a dramatic shift, an extraordinary change in control over land use in the metropolis, from small owners to giant corporations. The subsequent soaring land prices constrained the city and national governments to provide infrastructure that would better respond to the needs of the rapidly changing city.

The 1980s witnessed a new cycle of change (Douglas, 1989: 89). The trans-nationalization of capital led to a pervasive change in the economy under the command of firms that have developed networks of trade, production and investment. Tokyo became even more powerful as a nodal point for the economy of Japan. The competition among companies, and the conflict over land use between them and the city residents, led to a new drive to control the real estate assets in the inner city.

The most relevant trends for the history of financial investment in commercial real estate (especially office space) in Japan emerged mainly during the 1980s, a period when the national government promoted large-scale urban redevelopment projects, in close collaboration with the local leading financial corporations. All the major Japanese cities, Tokyo first and foremost, underwent a rearranging of their urban spaces in order to adapt to the stage of capital accumulation that the country was experiencing at that moment. The real estate activity in Tokyo generated some of the greatest investment returns achieved during the investment boom of the late 1980s. The boom of the local real estate market of Tokyo during the 1980s and its bust in the early 1990s led to a significant rise and decline in Japanese real estate investment in the United Kingdom, and particularly in the United States, from the mid-1980s to the mid-1990s (Fainstein, 1994).

As a consequence of the real estate investment boom of the 1980s, the land and real estate prices in the central business district of Tokyo experienced an extraordinary upward trend, with an 80% price increase for commercial real estate from 1980 to 1987, while real estate financing was expanding (Oizumi, 1994). Most of the land dealings and financing had been

concluded in 1986 and in 1987, by investors in search of speculative profits. After that, the real estate market experienced a downward trend (Oizumi, 1994). However, despite Japan's economic decline during the 1990s, the office real estate market of Tokyo, characterized by low but stable rents, experienced an increased demand for office space by 1999, which in turn reduced the vacancy rates. Rents in premium office buildings increased, while the vacancy rate for premium office buildings recorded the low value of 0.9% (Oizumi, 1994).

Furthermore, the relative economic recovery during the early 2000s has led to growth in office demand among foreign financial institutions such as banks, trust banks, securities companies, insurance companies, and investment trusts & advisors. The construction of large office buildings, including both leased and owner occupied buildings bottomed out in 1999 and has been rising since then (Yamakata, 2000, 2001).

The increased flow of investments into the real estate market of Tokyo which started during the 1970s and peaked during the 1980s, is resonant to Harvey's (1982, 1985, 1999) claim that the funnelling of large amounts of finance into the real estate market can lead to an overinvested

built environment, and eventually to crisis. The huge economic growth generating surpluses in the 1970s and 1980s led to massive investments in Tokyo's real estate market, leading to a unipolar concentration of capital here (Sorensen, 2005: 258-259). There had been a notable increase in international corporate investment originating from Japan during the 1980s, a time when the country's economy became internationalized, while Tokyo firmly established its status as a world financial centre.

As an illustrative comparison for this change and its impact on the real estate market of Tokyo, the Japanese companies made up for only 1% of the total stock of direct foreign investment in the world, from the 1950s to the 1970s. Their share of the total stock increased to 7% in 1980 (Douglas, 1989). As a consequence, the funnelling of surplus profits obtained abroad into real estate at home led to speculation and also to competition among companies to establish offices in the central city. These trends sent the real estate prices into an upward spiral by the 1980s: rent prices doubled annually, while office vacancy rates were close to zero. The prices of land, houses and condos became unreachable for most ordinary people (Douglas, 1989: 92).

Another illustrative comparison for the economic changes generated by the increased role of Japanese companies in the world economy, the Japanese investors conducted only 6% of direct investment flows registered from major industrial nations on the international market during the 1970s, 2% of equities outflows, 15% of bond outflows and 12% of short term bank loans. By late 1980s, the Japanese companies conducted 20% of international foreign trade investments, 25% equities, 55% bonds, 50% of short term bank loans (Sorensen, 2005).

As a consequence, Tokyo became an increasingly important business centre of the world, concentrating the country's business functions. This trend of economic growth, surplus investments and unipolar concentration of business functions had a profound impact on urbanization and planning (Sorensen, 2005: 260).

From 1980 to 1985, more than 80% of the newly created jobs in Japan were in service industries, including in the financial sector and half of all new service sector jobs were created in Tokyo, which gained a significant importance as a prime location for Japanese companies' head offices. By 1990, half of all Japanese companies established head offices in Tokyo,

while 85% of foreign companies present in Japan established their head offices in the city (Sorensen, 2005: 260-261). These economic evolutions led to the revision of the CNDP (Comprehensive National Development Plan) to match the world status of Tokyo (Sorensen, 2005: 261), aiming to vitalize each area through local settlement and interaction among areas, to generate international integration and reorganization of the global city functions and to provide the country with a safe environment of high quality.

The 1980s brought about a rapid growth of office space, particularly in the latter part of the decade, as the city's economy adopted new roles in the global control of capital and absorbed the new businesses needed to provide support for the higher order services (Waley, 1997: 405).

An increased number of people worked in finance, insurance and real estate (TMG, 1993: 184). By 1987, companies offering information-related services were half of the national total in terms of annual turnover. Office building floor space rose from 154 hectares in 1981 to 485 hectares in 1988, alongside an enormous growth in stock, especially in the three city wards (TMG 1991: 70). The land used for office buildings increased with 30% in the eight central wards, between 1986 and 1991.

There has also been a relative change in the use of floor space in the three city wards between 1980 and 1990: 46.69% to 55.79% (Waley, 1997: 406). The 1980s led to the development of the city as a corporate playground, particularly the second half of the decade, which brought about exceptional change. The driving factors of the change were the fact that Tokyo's real estate assets became a favoured outlet for speculative investments as a result of a coincidence of economic circumstances, the fact that restrictions on planning and construction were lifted and political blessing was given to the use of urban land as a vehicle of corporate investment, while the national and city governments wanted to project a new image of Tokyo as a truly international city.

Illustratively, the rent price in the central business ward of Chiyoda was 4,334 yen per square meter in commercial buildings in 1985, then it rose to 17,512 yen in 1990, only to decrease to 6,336 in 1995 and even lower to 4,716 in 1996 (Waley, 407-408). The purchase prices fell by half in case of residential land and 75% for commercial land by mid-1990s (TMG 1996b: 31). Another illustrative comparison for the effects of economic development on the real estate assets, 50% of land not owned by the government in the

three city wards was already in the hands of private companies by 1974. During the second part of the 1980s, there had been a notable increase in land owned by corporations. By 1989, four fifths of all Tokyo land owned by corporations was in the hands of a minority of large landholders (Oizumi, 1994: 206). They were therefore well placed not only to take advantage of the government drive for urban redevelopment, but actively manipulate the market to exploit the situation to their greater benefit (Douglas, 1993: 87).

During the 1980s, a resurgent Liberal Democratic Party worked hard to deregulate and privatize the Japanese economy, following the lead of the British Prime Minister, Margaret Thatcher, and that of the American President, Ronald Reagan. One aspect of this involved the deregulation of land development and redevelopment (Sorensen, 2010: 293). This was accompanied by moves to promote domestic demand in response to US pressure over trade deficits and measures to increase liquidity in the Japanese economy by loosening credit rules.

Against this background of political shift towards deregulation, the Nakasone government offered greater freedom for urban developers (Sorensen, 2005: 272). The formerly strict land use regulations and zoning

regulations were presented to the general public as the main barrier to developing the city (Sorensen, 2005: 275). During this time of extensive deregulation, most of the public land was sold in Tokyo, followed by significantly increased spending on public works (Sorensen, 2005: 275).

The loosening of zoning regulations in central Tokyo during the 1980s increased the ratio of building volume to lot size, re-zoned residential zones to commercial, and weakened restrictions on development. Deregulation led to an increase in the number of high rise buildings in central Tokyo (Sorensen, 2005: 277- 278).

The Nakasone government undermined all non-statutory regulations issued by the city council by issuing its own legislation, against a background of a notable increase in real estate prices (both land and buildings) during the late 1980s (Sorensen, 2005: 284). This increase in real estate prices eventually led to a swing back from deregulation to renewed support for stronger land development and planning controls: the passage of the Basic Land Law in December 1989 was based on the principle that public welfare is paramount in the use of land and land use must be planned, and land ownership is accompanied by responsibility of land use.

On a background of lack of central planning, Tokyo has been under the influence of a strong alliance between industrial capital and the state (Waley, 1997: 397). Private corporations expanded their power through the use of urban space, so that the 1980s and 1990s rent and purchasing prices of real estate rose fourfold only to fall back to near their starting point in the early 1990s. The stock crash of 1990 led to a steep drop in land value with gradual but persistent decline in land prices (Sorensen, 2005: 286). The boom and bust of the real estate market also led to a notable return to the belief that actual regulation of the real estate and construction industries can have beneficial effects for the city and its people.

Despite the dramatic economic and political trends of the 1970s and 1980s, Tokyo did not develop a new spatial plan during these two decades, but experienced an accentuation of pre-existing trends and the de-regulation measures of zoning and height referred to above. The three city centre wards had always been the core of the city, economically and politically (Waley, 1997: 401). The city centre urban space is devoted to higher order functions, and the national and local governments have always been involved in the

development of the real estate market in this area, including through the selling of land (Waley, 1997: 403-404).

There has always been a common purpose behind the investments of Japan's leading corporations. Many counted on the rising value of the yen and on the growing shortage of labour by investing abroad, particularly city banks and construction companies. Although operating abroad, they never became international in terms of ownership, management or employee structures (Machimura, 1994: 84), they remained Japanese-owned and managed by the upper echelon of Japanese executives. They were transnational with worldwide networks, but driven by a Tokyo oriented decision making framework.

Falling interest rates at home made land attractive for investment (Waley, 1997: 408). Large amounts of money were available from repatriated profits or from proceeds from cheaper imports. The Japanese companies invested their surpluses in real estate, because of a tax system that exempted land from capital gains tax, as long as it was held and not sold (Noguchi, 1994: 310).

Also, the Japanese companies raised funds on the stock exchange, because the deregulation of the financial market made it easier, and then placed the funds in bank deposits that paid higher interest rates. Therefore banks had significant amounts of money available and less clients, since money came cheaper from the stock exchange. Therefore, banks invested the flood of finance in real estate: either in real estate companies or via subsidiary companies especially created to invest in property development.

At the same time, urban restructuring was underpinned by traditionally close ties between politicians and corporate interests (Waley, 1997: 409-410). The government deregulated the economy, made investment in building development attractive for corporations, through participating in joint private-public companies. Land development and construction industries influenced the government, notably the Real Estate Association (which groups large developers), the Urban Development Association (which groups developers owned by railway companies), and the National Federation of Land and Building Agents (which groups small and medium sized developers) (Sorensen, 2005).

The local and national governments also created mechanisms of reorganizing urban space in their pursuit of economic growth: relaxation of zoning rules, disposal of public land, generally through measures to the advantage of landowners. All this process entailed deregulation: changes to the ratio of floor space to plot size in inner city, particularly facilitating the construction of buildings in designated areas, the selling of government land.

Internationalization became a catchword, but not an actual policy, and was used by central and city governments to justify the building of more office space (Waley, 1997: 410 – 415). The government argued that there was a shortage of suitable office space for international companies, driving up rents and therefore retarding the role of the city in the international arena. Politicians worked hand in hand with business to use the urban space for corporate expansion and funnelling of large amounts of money into real estate. Rights concerning real estate were given to companies in return for funding of political parties, leading to public scandals once exposed (Waley, 1997: 413). Politicians simply used urban space for speculative profit, in a clear alliance between the capital and the state, under the pretence that

Tokyo had to be internationalized. In the central wards, the office building spree gradually replaced low rise housing (Waley, 1997: 413).

The excess liquidity diverted into real estate, the relaxation of planning controls and the ideology of Tokyo as an international city, all led a number of high rise projects; among the most prominent were Ark Hills development in the Minato Ward, and Ebisu Garden Palace in the Shibuya ward, both mixed function buildings. The participation of the private sector in the development of the city was ensured through involvement in key consultative committees and the creation of a joint public-private consortium, in which the Tokyo Metropolitan Government had a controlling stake.

Despite the internationalization discourse, the actual metropolitan internationalization did not really occur. Japanese companies had no upper echelons of international management. With the exception of long established Korean and Taiwanese interests, property remained in the hands of the Japanese (Waley, 1997: 425). The way the government chose to reorganize the economy and the real estate market has actually served to limit foreign ownership, while protecting and promoting local interests.

The significant role of the deregulation of land development controls in inflating the bubble led to a backlash towards the end of the 1980s, and a movement for a renewed emphasis on the social value of land regulation, as reflected in a new Basic Land Law of 1989 referred to above. This law declares: 'In a small country such as Japan, land is a limited resource and a basic necessity of life that is common to all the people, thus the use of land enters the public domain and as such is subject to public restrictions'. It is described as a philosophical statement, a sort of 'constitution for land and property issues' that is unlike normal laws, which restrict individual rights or impose regulations (Sorensen, 2010: 293). It sets out four basic principles:

(1) The priority of social welfare in land use: 'Public benefits are to be given priority over the use of land when it is in the public interest'.

(2) Compliance with urban planning: 'Land must be used properly according to the various environmental, social, economic and cultural conditions in each area'.

(3) Control of speculative development: 'Speculative development should not be permitted because it causes land prices to inflate higher than their actual value'.

(4) Burden of planning gain: 'Owners will be taxed if the value of their land has increased as a result of changes in the socio-economic conditions of the area' and declares that central governments, local governments, enterprises and citizens should comply with the spirit of this act.

It is unclear what impacts this law has had, in part because its prescriptions are vague and in part because economic stagnation during the 1990s led to a renewed round of deregulation to promote a revitalization of the property development industry.

One consequence of the Basic Land Law was the passage of the new Landscape Law in 2005, which grants municipal governments the legal right to regulate development, for example building heights, more strictly than specified in the relevant city planning and building standards laws (Sorensen, 2010: 293). Specifically, it allows municipalities to define shared goals in landscape management, including restrictions on private property rights. This law was the result of a major conflict over permitted building heights in Kunitachi, in the western suburbs of Tokyo.

In response to a controversial building plan for a 18-story condominium on a historic street, the municipal government passed a bylaw

that limited building heights along the street, but the developer went ahead and built the building anyway. The crisis ensued when the Tokyo Divisional Court found in 2002 that the developer had contravened the municipal bylaw and ordered the removal of the top eight floors of the building. The developer then appealed to the Tokyo High Court and won a reversal of this decision in 2004. In 2006, the Supreme Court dismissed a final appeal by the residents reasoning that the building was built legally (Sorensen, 2010: 293 – 294).

Therefore, the major change was not in the centrality of land in the political economy, but the granting of legal rights to mortgage and sell land, the creation of the system of land titles and property markets, and the formal protection of property rights from intrusions by the State (Sorensen, 2010: 294-295).

During the twentieth century, the constitutional protection of land ownership was repeatedly invoked as an obstacle to proposals for stronger planning regulations, for example in the initial planning system of 1919 and when urban growth boundaries were proposed in 1968 (Sorensen, 2010: 295). When the District Plan system was created in 1980, the major caveat was that the vast majority of landowners affected by such a detailed plan had

to offer their consent before a District Plan could be approved. Such reliance on persuasion and consent by landowners, instead of regulation, is an important characteristic of Japanese planning, seen in land development projects, redevelopment projects, and historical preservation, among others.

The second observation is that although there are clear long-term impacts of the strong property rights established in the early Meiji period, there has also been a gradual strengthening of the planning and land regulation system that does constrain property rights. Land development is now subject to a range of regulatory processes that seek to protect the public interest in managing shared spaces, such as building codes, zoning, development permits and urban growth boundaries. The social meaning and value of land has been recognized in the Basic Land Law of 1989 that seeks to articulate a public interest in land and which goes even further in endorsing the social meaning of land than the property rights clause, which was imposed in the aftermath of World War II by the Allied administration of Japan.

The relationship between the state and business in Japan has been paramount in devising regulations (von Staden, 2012: 187, 191), as proved

by the records of debates carried in 1999 between government and business, in the framework of Shingikai, or Council of Deliberation. The debates focused on how Japan wanted its market to operate, and the organization of the market reflected the values of the nation (von Staden, 2012: 188), Japan being 'without question a societal state' (Okimoto 1989: 226). The State is at the top of this interlocked relationship between how the market operates, how policy is formed and the support of society. Although never fully elaborated, in broad brush terms participants spoke of the need to recreate their society as one that would be 'free, fair and open' with the implication that Japan did not have those characteristics at the time (von Staden, 2012: 194).

Taking this further, Okimoto (1989, p. 226) argues that the 'secret to the power of the Japanese state is thus embedded in the structure of its relationship with the rest of society'. Although corruption prior to and throughout the 1990s, had sullied the reputation of the state's leading actors, politicians, bureaucrats and big business, these actors continue to play an essential representative, coordinative and directorial function in Japan up until today.

Parker and Amati (2009: 156) have also eloquently explained how strong property rights enshrined in the constitution of the country grant the owners of real estate assets the power to block the implementation of real estate regulations, particularly urban planning regulations, as I will show later in more detail. Land development and construction represent about double the share of GDP than other developed countries even today, constituting a major part of the economy. Therefore, the government has adopted a contradictory approach to urban planning: it promoted stronger planning through the passage of specific legislation, while allowing loopholes and looser regulation.

4.2. Contemporary trends in the urban restructuring of Tokyo

The strategies of the Japanese government regarding the real estate market as an investment market developed along four main directions: urban regeneration, improvement of market institutions, the construction of a real estate market database and the efficient utilization of the real estate stock (MLIT, 2008). The real estate market database included data on real estate transactions prices (announced prices and actually transacted prices), data on the cost of real estate management (including rent, maintenance fees and

financial costs) and data on income and cost of items, discount rate and estimated yield. The efficient utilization of real estate stock focused on existing governmental buildings, government offices, disposition of buildings developed by private sectors, and disposition of public real estate which were not fully utilized.

The first and second strategies however, have had a direct and major impact on the actual development of the real estate market as an investment market, and I will describe them in more detail.

The first strategy refers to structural reforms that focus on urban regeneration and urban development investment by private sectors, consisting in the designation of 65 sites as urban regeneration areas, with a total area size of about 6,612 ha, most of which are located in the central business district of Tokyo (MLIT, 2008). The government has supported the redevelopment of these designated areas by deregulating the legislation regarding urban development projects. Other types of government support address the necessary changes in the city planning policies, such as legislation regarding the elimination of floor areas limitations, but also various

forms of financial assistance for developers interested to invest in areas designated for urban regeneration (MLIT, 2008).

The law on urban regeneration was approved in 2002, based on proposals from the local government, regulating the investments in development projects by private investors. This government regulatory support contributed to the design of twenty-two projects from 2002 until 2006, while the projects designed after 2006 had been located in areas such as Marunouchi, Yaesu, Toranomom-Shimbashi, Toranomom-Roppongi, all of these being located in central business district of Tokyo (MLIT, 2008).

The urban development processes focused specifically on the central business district of Tokyo, which includes three core wards: the financial area Chiyoda, retail area Chou, which includes Ginza, the most expensive area in Tokyo and Minato, the area where governmental buildings and offices of foreign companies are located¹.

¹ maps below show the Chiyoda Ward, Tokyo and Tokyo Metropolitan Area, from the website of the Otemachi-Marunouchi-Yurakucho (OMY) District Redevelopment Project Council <http://www.otemachi-marunouchi-yurakucho.jp/>



Many of the developments in this area of Tokyo included large office buildings, which were built after the bubble economy, when the demand for office investment was strong. These developments have been possible as a result of land use regulation, whose implementation is problematic in Japan, due to how property rights are defined and upheld, as reviewed earlier (Parker and Amati, 2009). Furthermore, land use regulation in Japan is lax and facilitates the provision of new land for the purpose of development. If

the developer intends to change the use of land, it does not have to apply for another license to replace the one that was initially granted (Shimizu and Nishimura, 2007).

The characteristics of Japanese town planning, together with the technological development, made possible the construction of high rise office buildings. The development of office space and the transformation of the urban space in the central business district of Tokyo have been constrained by the physical characteristics of the space, such as the micro-scale geography.

In the central business district of Tokyo, the land use preferences in the work environment transformed the urban spaces accordingly. Office not only provides a place for workers to operate, but also creates a structure for corporate production and administration. Revisions to the urban planning laws, such as the elimination of limits for the floor-area ratios have led to increased development and a boom in development projects.

The urban renewal plan initiated by government had placed emphasis on the need for office renewal. This plan had been the key factor in the relocation of offices of all types of industries, as well as headquarters of

banks and financial institutions, in the Marunouchi or in the Chiyoda ward (the latter having very high rental rates compared to other business areas).

Since the 1990s, a number of renewal projects have been completed, such as the rebuilding of old buildings located in the Marunouchi area and the development of the land owned by the privatized National Railway Company. The Metropolitan Government of Tokyo formulated nine urban plans for large re-building projects between 2000 and 2005, while the urban regeneration project of 2002 also included older buildings located in the Marunouchi area (Tsubomoto, 2007).

Other important policy changes that influenced the development of the central business district of Tokyo took place over the years. The Metropolitan Government of Tokyo released a “Commercial Facilities Master Plan” in 1994. The National Land Agency compiled its updated views regarding Tokyo in a report called “Grand Design for Central Tokyo”, released in 1995 (OMY District Redevelopment Project Council, 2007).

The Metropolitan Government of Tokyo made available the new city planning policies in a report called “Central Tokyo in the 21st Century” in 1996. It released new and updated guidelines with the title of “Development

Policies for Central Ward Areas” in 1997 and updated it in 1999 under the title of “Crisis Breakdown Strategies” (OMY District Redevelopment Project Council, 2007). This report identified the renewal of the heart of Japan’s capital city of Tokyo as a priority issue, and called for the restoration of Tokyo Station, the development of Gyoukou-dori Avenue, and the formulation of guidelines by the Advisory Committee on Otemachi-Marunouchi-Yurakucho Area Development, among other initiatives.

Furthermore, a series of administrative acts continued to adjust urban policies throughout the 2000s: the “City Planning Vision for Tokyo” had been released in 2001, which presented a future image of the District (central Tokyo) as a dignified international business centre abounding with history, culture, and the beauty of its natural environment.

Meanwhile, the central government also began to concentrate on addressing the urban renewal issue and enacting the Urban Renaissance Special Measure Law in 2002, which put into place bold measures, including exemptions from city planning ordinances and financial assistance, to promote and support urban regeneration projects undertaken by the private sector.

Since the formulation of the guidelines, Tokyo's urban renewal movement and urban development plans have undergone change, amid a growing awareness of living in harmony with the natural environment. The advisory committee therefore invited the public to share its views and opinions in a public symposium held in 2005, and incorporated the results of the discussions in the "City Planning Guidelines" in 2005.

More recently, based on the Comprehensive Special Zone Act enacted in August 2011 by the Japanese government, the Tokyo Metropolitan Government had applied to the central government for designation of areas as Comprehensive Special Zones for International Competitiveness Development and has proposed easing of regulations and other new preferential treatment in line with this application (Tokyo Metropolitan Government, January 2012 Report).

The Tokyo Metropolitan Government specifically designated the Central Tokyo/Waterfront area, including the major transportation hubs of Roppongy station, Shimbashi Station and the Central Station, but also five other areas around the city centre and one vacant site formerly used by the

Haneda Airport. The national government officially designated these areas as Special Zones for Asian Headquarters in December 2011.

The basic strategy of the Tokyo Metropolitan Government is to attract multinational companies and growing companies from around the world to set up bases for their Asian regional management and R&D operations in Tokyo. The goal is to develop an attractive environment, in which both the foreign companies and Japanese companies (especially Tokyo's SMEs and start-ups, which possess advanced skills and technology) can stimulate and energize each other to create new technologies and services, while the vision is to turn Tokyo into the preferred location for companies to establish their Asian headquarters by winning the competition among cities, and consequently make Tokyo the business hub of Asia.

The targeted industries are IT, medical/chemical, electronics/precision instruments, aviation, finance/securities, and content/creative industries. The specific goal is that within five years Tokyo should have an additional 50 or more companies establish their Asian regional headquarters or R&D centres in the Special Zone, while an additional 500 foreign companies should establish such operations in the

Special Zone. The strategy includes the sharing of functions and responsibilities between the central government of Japan and the Metropolitan Government of Tokyo along four main policy dimensions: business support, living environment, energy/disaster reduction and pro-active approach of foreign companies and business exchanges, as follows.

The Metropolitan Government of Tokyo has proposed to the Government of Japan as business friendly measures the easing of screening for visa/entry permits, easing of restrictions placed on registered foreign lawyers, the easing of restrictions on working visas for foreign students, easing of restrictions placed on foreign medical doctors, enhancing support for hub schools accepting foreign nationals.

The Government of Japan has further proposed a flexible application of areas subject to special power supply, to purchase of surplus electricity from power generated by natural gas cogeneration systems, while offering additional subsidies for introduction of natural gas co-generation systems. The Government of Japan is further expected to shorten the processing time for decisions on establishing private heliports, support efforts for MICE

tourism (Meetings, Incentives, Conferences, and Exhibitions) and ease restrictions placed on the sale of state-owned land.

At the same time, the Metropolitan Government of Tokyo has pledged to offer preferential treatment on metropolitan taxes (real estate acquisition tax, fixed assets tax, etc.) for potential businesses choosing Tokyo as their Asian HQ, to establish a “business concierge” service, to support tie-ups with SMEs and research institutes in Tokyo, to bolster hub (public) schools accepting foreign nationals, to use systems such as the Special Zone for Urban Renaissance system, relax the floor-area-ratio for development projects contributing to the strengthening of disaster management capabilities, to implement urban development projects introducing a high degree of disaster resistance and an independent/distributed energy system, to uncover potential foreign companies by regularly approaching companies overseas, to support pioneering projects concerned with MICE tourism, while building an industrial exchange facility.

4.3. Role of regulations in the convergence of financial and real estate markets

The improvement of real estate investment regulations has been another strategy implemented by the government of Japan in its attempt to facilitate the financing of its urban redevelopment plans that I presented in the previous sub-section. The revitalization of the real estate industry was seen as having a major contribution to the modernization and improvement of urban areas, through increased building and infrastructure development, with a major influx of capital from financial companies.

Furthermore, similarly to the United States' model of indirect investment structure, investors and developers in Japan looked for alternatives that would reduce the risks associated with direct real estate investment, notably the risks associated with the long term nature of such investment and the substantial amount of funds generally required for investing in real estate.

The burst of the asset bubble in 1990 forced into bankruptcy many of the companies holding real estate in Japan during the 1980s. As a consequence, a number of laws were enacted, attempting to protect

investors, contain the market decline and eventually reignite growth. The legal framework supporting the development of real estate securitized products goes back to 1987 (MLIT, 2003). However, the trend became stronger from mid-1990s onwards, increasingly developing the real estate investment market and offering incentives to investors, including tax incentives.

Real estate securitization was more firmly developed late in the 1990s (MLIT, 2001), allowing investors to provide funds directly to businesses investing in real estate, while enabling the latter to raise the substantial amount of funds required through the sale of standardized investment units.

The securitization of real estate investment has been developed with support from the Japanese government, through a favourable regulatory regime, with the intention to increase the liquidity of the real estate market in Japan by developing a new source of real estate capital that would possibly supplement the traditional one, limited exclusively to direct investments in real estate.

The 1995 enactment of the Real Estate Syndication Act is generally considered to be the most influential law directly affecting real estate investment. It created a system that involves the distribution of dividends to investors at a minimum amount of paid-in capital. The first "silent partnership (Tokumei – Kumiai) type" product was introduced in the same year (1995) on the basis of the Real Estate Syndication Act, due to tax considerations (MLIT, 2001).

Important revisions to the Syndication Act, as well as new regulations regarding its enforcement, took place in 1997, further making the real estate market more attractive and accessible for a wider range of companies: the minimum investment unit had been reduced from JPY 100 million to JPY 10 million, allowing banks, trust companies, insurers and publicly traded corporations demonstrating knowledge of the real estate market to become professional investors on the real estate market (MLIT, 2001).

The minimum investment unit had been further reduced in 1999, from JPY 10 million to JPY 5 million, through further revisions of the enforcement regulations of the Real Estate Syndication Act, making investments in real

estate securitized products more attractive. The same revisions removed a ban on transferring the investment units to third parties.

Furthermore, the 1998 enactment of the law on securitization of specified assets by Special Purpose Companies (SPC), also known as Asset Monetization Law, created an effective mechanism to redirect large amounts of non-performing loans released into the Japanese economy in the late 1990s towards the real estate market, while also enabling institutions managing assets to procure funds from the capital market based on the value of the asset to be acquired, as opposed to the creditworthiness of the institution itself.

A series of regulations issued in 2000 further contributed to making the real estate market more attractive and accessible, through the legal registration of Property Investment Advisors, through the establishment of different types of real estate investment funds, such as Real Estate Investment Trust (REIT) and Real Estate Investment Corporation.

Furthermore, the Tokyo Stock Exchange established a market for real estate investment funds in 2001, while the Financial Instruments and Exchange Law (FIEL) (2007) regulated more closely a wider range of

financial products in an effort to close loopholes in previous legislation such as the Securities and Exchange Law (Kenedix, 2010).

As an outcome of the introduction of real estate securitization during the 1990s, the securitized private investment funds became increasingly attractive for both foreign and domestic institutional investors during the 2000s, due to their high performance on the real estate market (STBRI, 2008). Real estate securitization played a major role in attracting investments and generating upward investments trends.

The data released by the Ministry of Land, Infrastructure, Transport and Tourism of Japan in 2007 estimates the real estate owned by corporations such as offices, stores, factories and welfare facilities at about 490 trillion yen representing about 21% of the asset value of entire Japan real estate. The total assets of all corporations is estimated at 1,344 trillion yen at book value, while the total land area owned by all corporations is the equivalent of 54,000 km², which represents 14% of Japan's total land area of 380,000 km². The real estate for investment, including rental offices and rental commercial facilities, is estimated at 68 trillion yen, from which about 33 trillion yen represents the securitized real estate (MLIT, 2007), from which

about 27 trillion yen represents the value of privately placed real estate funds, the rest representing the public J-REITs. The investment market in 2007 was 14% by value of the real estate in corporate ownership. The rest of the Japanese real estate by value is owned by families in housing, different forms of government (local, central) and private individual land owners.

Real estate companies and life insurance companies are major owners of the real estate stock in Japan. The value of real estate investments placed by private funds (including those reaching maturity each year) seems to increase across the years as a result of regulations aiming to develop the real estate market and make an attractive investment option, as mentioned in a specialized report (ARES, 2009) (all values are in billion yen): 4,330 (out of which 1,910 reached maturity that year) in 2006; 3,990 (out of which 1,170 reached maturity that year) in 2005; 3,330 (out of which 1,110 reached maturity that year) in 2004; 2,890 (out of which 420 reached maturity that year) in 2003; 2,240 (0 reached maturity that year) in 2002; 2,170 (0 reached maturity that year) in 2001; 161 (0 reached maturity that year) in 2000.

A specialized report (STBRI, 2009) offers a perspective on the growth of investment on the real estate market, placing causal explanation on the

increase in the number of investment management companies that preferred the privately placed funds in reaction to the low profits registered on the J-REIT market. Another reason for the preference of investment management companies for the privately placed funds has been the sale of real estate funds to the private investment funds in advance of their maturity date (STBRI, 2008).

Some empirical findings regarding the privately placed real estate funds have analytical value in order to understand the stage of the market at the middle of 2008 and the impact of the global financial crisis. Equity investors originally favoured an average investment period between 3 to 5 years, however, the investors' needs changed at the middle of 2008 and longer investment periods were considered (STBRI, 2008). Severe lending circumstances were recorded in 2008, loan to value ratio (LTV) slightly decreased to 61% of the total amount of investment, and 65.1% of the acquisition price on average respectively, compared to the end of 2007 while debt financing became increasingly difficult since the beginning of 2008. However, office space remained the type of real estate less affected by debt financing conditions and most favoured by lenders in 2008 compared to other

types such as residential, retail and hotel, which were particularly affected by LTV due to concerns regarding liquidity at the disposal of these types of real estates (STBRI, 2008). Similar trends were recorded regarding the areas of investment affected by debt financing conditions in 2008. The metropolitan area of Tokyo is the Japanese region with the highest percentage of real estate owned by private funds (65% real estate owned by private funds in Tokyo, compared to 55% in all regions in Japan), according to information valid between 2005 and 2008 (ARES, 2009).

Furthermore, private funds prefer to invest more in office space than in other type of real estate assets: 45% to 55% of investments by private funds between 2005 and 2008 had been placed in office type of real estate (ARES, 2009). The central business district of Tokyo is reduced here to the Tokyo three wards which are Chiyoda, Chou and Minato. In 2008, this area remained less affected by debt financing, while being the most sought after by lenders compared to other metropolitan areas. The office market records the highest demand for investment in this area (STBRI, 2008).

Real estate stock for office lease in Tokyo represents approximately 51.9% of the total stock of Japan, at the size of 61 million sqm in 2006

(STBRI, 2008). The Tokyo office real estate market was recovering from the 1992 bust up until the 2000s. The market was characterized in 2000 by low but stable rents for premium office buildings, which made investment in office space attractive. The average office rents in the central business district of Tokyo settled at their lowest since 1992 (Yamakata, 2000, 2001).

The average rent in the central business district of Tokyo was 22,732 yen per standard floor area of 100 tsubo (330sm, 3,558sf) at the end of September 2008 (MIKI, 2008). The capitalization rate of premium office real estate in central business district of Tokyo remained mainly unchanged in 2008 and a concentration of investment in office real estate was recorded, since most of the investors consider this type of real estate most attractive compared to other types of real estates (STBRI, 2008).

The data released from 2000 to 2005 on income returns and capital gain in central area of Tokyo shows a positive trend, with significant increase of percentage of capital gain in 2005 at approximately 12%, compared to the period of time from 1991 to 2003, when the capital gain is negative and fluctuated between -2% and -22% during that period of time (STBRI, 2008).

The new construction of office floor space in the central business district of Tokyo was 1,984,000 square meters in 2000 and 523,000 square meters in 2006, where the area constructed in 2000 counted for the highest surface of new office floor space constructed between 1997 and 2006 (MLIT, 2008).

Foreign investors were considerably active in the real estate market of Japan. Foreign shareholders share in the major real estate companies in 2008, such as Mitsui Fudosan and Mitsubishi Estate (the first and second positioned companies in the top of local real estate companies) represented over 50% and 40% respectively (STBRI, 2008). Despite this foreign shareholding presence, the Japanese companies management structure remained local, as literature reviewed earlier indicated, as well as I will show later in the current research.

A large presence of foreign investors was registered in the private funds market. The STB Research Institute released a study on the expectation for the future volume of investment (STBRI, 2008), in which the top investors considering increasing their investment were foreign institutions, followed by foreign sovereign funds and foreign pension funds.

The Japanese private pension funds came on the last place regarding their willingness to increase their investments. One major reason for institutions considering investments in the real estate market of Japan was the yield gap due to low interest rate (IPD, 2008). Other significant reasons were the necessary allocation in global portfolio, high stability of income, large size of real estate market, and investment opportunity (STBRI, 2008).

Various factors have impact on foreign investors' behaviour and their investments in a certain market: the development of institutional infrastructure for real estate investment such as efficiency of the judiciary, information transparency and reliability, actual transaction prices including contracted rents, attractiveness of preferential tax treatment and other investment incentives, clarity of administrative procedures, clarity of information access locations, real estate investment index, city to city investment index, multilingualism regarding business communication and information sources such as web sites. Most of these market factors are not fully developed on the Japanese real estate market (MLIT, 2008).

Other factors influencing the investment suitability are the growth potential of the real estate market, expected yield level, real estate market

liquidity, growth potential of economy, economic stability, market size (MLIT, 2008). The global financial crisis had an impact on the real estate market of Tokyo in 2008. The credit crisis led to substantial constraints on the credit supply, with high impact on the lenders' behaviour, who were aware of high risk loans, such as high loan to value ratio (LTV), low credit borrowing, construction loans and the oversupply on the building market (MLIT, 2008).

However, the Japanese real estate market has reacted differently from the US market to the recent financial crisis (STBRI 2008). Firstly, the condition of banks' loan balance to real estate companies remained stable in Japan. Secondly, there has been a significant process of withdrawal of the United States investment banks from the Japanese commercial mortgage backed securities (CMBS) business, with negative consequences on both high and low leveraged players (STBRI 2008).

Investment management companies operating on the real estate market of Tokyo have to offer attractive conditions in order to attract investors, from which the most important seems to be asset management capabilities and compliance structure, followed by other conditions such as management strategy and its accountability, capabilities to acquire real

estate, specialized expertise, debt financing capabilities, relations with investors, information disclosure, corporate strength, equity financing capabilities, research capabilities (STBRI, 2008).

Disclosure of performance and evaluation of fund assets are required periodically. However, that is not always achieved for private funds (STBRI, 2008). Firstly, information about performance at the time of solicitation for new funds as well as in the fund management reports is not actually disclosed in the majority of cases, or only occasionally disclosed. The Internal Rate of Return (IRR) is widely used as a performance indicator. Secondly, the external appraisal and internal valuation of market values is performed annually, while the semi-annual or quarterly appraisals and valuations are not common. Thirdly, the recognition and examination of compliance with global investment performance standards (GIPS) remains at a low level among real estate investment companies in Japan with a majority of approximately 80% of companies from the total not using this type of examination (STBRI, 2008).

4.4. Empirical field research findings: a critical summary of interviews and questionnaires

As I have described in more detail in Chapter 3 of the thesis, the research questionnaire was sent to representatives financial institutions investing on the real estate market (investment banks, pension funds, asset managers), market research institutes, as well as to local administration institutions. Some of the selected companies performed multiple functions simultaneously, owning, managing and offering investment services in real estate assets.

After the initial application of the questionnaire and the low response rate, which I described in Chapter 3 of the thesis, the second application of the questionnaires returned 36 responses out of 49 potential respondents.

Out of the 36 respondents, 26 were from 20 financial institutions investing on the real estate market (four of whom accepted to offer a direct interview), 5 were from 3 market research companies (two of whom accepted to also offer a direct interview) and 5 from central (national government) and local (city of Tokyo) administration institutions (one of whom also accepted to offer a direct interview).

Out of 26 responses from financial institutions, 9 respondents worked for subsidiaries of Japanese corporations that simultaneously owned and developed real estate assets, while also offering investment services.

All the respondents chose to answer only those questions that were relevant for their company or institution. As I explained in the thesis Chapter dedicated to methodology, I attempted to overcome this field research shortcoming by organizing direct interviews with those respondents who held higher managerial positions, seven of whom accepted to meet for a direct interview, as I detailed above. Their answers are summarized below, containing references to the questionnaire responses offered by those respondents who ranked lower in the company hierarchy.

Interviewee 1 is the Director of the Investments Group of a Japanese company that manages assets for investors located in Europe and United States (such as pension funds), but also for investors from Asia, mainly Chinese. From 2003 to 2006, the company managed investments in hard assets, such as office, retail and residential. From 2006 onward, the company started to manage investments in real estate corporate funds. The total value of investments that the institution manages currently counts for 1

trillion yen, approximately 10 billion dollars. The company's top investment priority are real estate assets such as office class A under management, located in the Central Business District of Tokyo.

According to Interviewee 1, the volume of real estate investments on the Japanese market in general is relatively low, when compared to the United States and Europe. This reality has been confirmed 100% by the questionnaire respondents working in for market research institutions (5 respondents), as well as by Interviewees 4, 6 and 7, as I will show later.

One reason for comparatively lower investment on the real estate market is the social culture, since the selling of real estate assets is not a regular practice in the Japanese society. Owners generally prefer to transfer real estate assets (owned directly or indirectly) from generation to generation, as inheritance. This interview finding is entirely resonant to the literature reviewed earlier, which explores the perennial role and significance of land and real estate in the society of Japan (Sorensen, 2010: 282).

Another reason for the comparatively lower level of financial investments in real estate is the control exerted over the CBD market of Tokyo by leading and long-established Japanese companies, such as

Mitsubishi (dominant in the CBD ward of Chiyoda-ku), Mitsui (dominant in the CBD ward of Chuo-ku), Mori Building (dominant in the CBD ward of Minato-ku), significantly reducing the availability of land for development. Mitsubishi has a very strong presence in particular, in the quarter of Chiyoda-ku, where it has a virtual monopoly on real estate assets. This reality has been confirmed again by all the respondents who worked for market research companies (5 respondents).

Furthermore, Interviewee 1 declared that office class A is the most attractive real estate type of investment in Tokyo from the perspective of the risk-adjusted return (all 26 respondents who worked for financial investment companies confirmed this finding). Interviewee 1 explained that office space is preferred to residential, because the residential market in Japan is different, when compared to European countries or the United States, being solidly rooted in social culture. When choosing to rent an apartment or a house, most of the Japanese would like to have a new residence that was not used previously by another person (ideally) and incorporates the latest technology in terms of amenities. This cultural trait makes residential tenants considering moving every few years in another new residence for the new

technology that it may offer, or for improved comfort. This in turn leads to a low demand for residential space as an investment option.

Secondly, office space is preferred over retail space. In the case of retail, the investor has to take into account the solvability of the commercial operator to whom the space is rented to, as well as the its capacity to sustain its business plans. Renting out to commercial operators is considered risky, since they might or might not have a good cash flow and/or the capacity to develop their business.

The decision of investing in real estate is primarily driven by capital gain (profit), where target hills that are more than 20% represent large returns. The main criteria the company considers when deciding to invest in real estate are the time of return on investments. One of the company's investment strategies is leverage as large as possible, given that the company is using bank loans extensively.

The company uses valuation techniques (i.e. Discounted Cash Flow to calculate the Internal Rate of Return) as simple indicators that help to project a more accurate estimate of the considered investment, without necessarily affecting the final investment decision (85% of the respondents

working for financial investment companies offered the same response regarding the simple indicator role of DCF). The final decision to invest in a particular building is based on the evaluation reports the company's consultants, who use their own professional expertise and experience, built across the years, on sound knowledge of Tokyo's real estate market. Interviewee 1 stressed that intuition plays an important role when making the final investment decision: in case of steep price increases, past investment experiences with similar situations are essential in order to assess how the trend affects the investment, particularly given the opportunistic nature of the managed funds (70% of respondents working for financial institutions also mentioned past experience with similar situations and intuition as playing a major role when making an investment).

The company actively researches and obtains information itself, sometimes from public sources (MLIT) or private sources (supported by investment banks, trust banks and real estate brokerage firms such as CB Richard Ellis, Jones Lang LaSalle, DTZ, Sanko Estate, Miki Shoji). Despite the availability of information from official government sources, the company does not rely on the evaluations of the land price value released by MLIT at

regular intervals of time, but it is interested in the trend of the actual selling price across the time. This is the case particularly for investments in securitized assets in the most desirable areas in the CBD, such as Marunouchi area, which is located in Chiyoda-ku, controlled by Mitsubishi. The company has the same approach in case of public land price value released by every prefecture in Tokyo.

Regarding the importance of factors listed under Question 11 (see Questionnaire in the Annex) when making an investment decision, the company takes into account matters related to urban planning regulation, such as building code, since it owns and manages buildings, but also appropriate floor ratio area in the district (85% of respondents from investment companies that owned and managed buildings offered the same response). Furthermore, the company is not interested in land-use regulations or the present and future role of the district, since it is not developing land and the role and function of the most sought after wards in the CBD are well established and will not change in future.

The level of taxation is not a factor affecting the investment decisions of the company. The interviewee stressed that the company might consider

this factor only when the regulation changes, but changes in the regulation of taxation of real estate investments do not occur too often in Japan. 70% of respondents who worked for financial investment companies also mentioned their companies are not interested in taxation as such when making an investment decision, but are present on the market of Tokyo because of a favourable tax regime of certain investment categories, such as J-REIT.

Interviewee 1 further mentioned that regulations of land use, Private Finance Initiative, private-public partnerships, the present and future role and function of the district, are investment criteria that might be an important decision factor for large real estate corporations, such as Mitsubishi or Mitsui, because real estate developers negotiate the regulation and taxes with the government when they develop large urban projects that have an impact on Tokyo as a city.

Regarding matters related to the ownership of land, Interviewee 1 mentioned that his company proceeds with due diligence for buying and also legal due diligence. The reason is that land or building ownership is still unclear in Japan, in some cases due to the effects of the war. After the war, some land was taken abusively by a part of the population and used without

having ownership rights. Earthquake risk and contamination risk are key factors as well, when identifying and controlling the portfolio risk. However, the company does not consider investing in “Green Buildings” because this type of investment does not provide a good return on investment in Tokyo.

As an asset management company, the company has a licence from the Ministry of Land Infrastructure and Tourism (MLIT) and it is able to process minor changes to buildings, when considering to refurbish or consolidate a building, such as after an earthquake, in order to increase the value of the building. The company buys already built buildings, owning and managing them for a limited period of time, during which it might consider refurbishing them, then selling the buildings after around 5 years from the moment of acquisition. The company might consider building regulations in case it will have to proceed with a significant transformation of the building, such as the change of the function of the building, but that is an extremely rare occurrence. The low importance of building regulations was also confirmed by the respondents to the questionnaire who worked for financial investment companies (85% mentioned it as not important).

Interviewee 2 is the Head of Compliance and Risk Management Department with a leading Property Investment Management company that belongs to a leading Japanese insurance group, providing real estate advisory services. It manages real estate investment funds for institutional investors, such as corporate pension funds. The total value of non-life insurance assets under management in 2007 represented about 10 trillion yen (approximately 100 billion dollars). The institution invests in assets such as office real estate class A and B, leased housing and retail real estate as well. The company undertakes market research on its own, through its specialized department, which advises the investment Committee on the opportunity of investments. Most of its clients are long-standing and the company knows their preferences, and based on this prior knowledge it determines the investment type, with some clients preferring office over residential investments.

For office class A, the institution chooses its investment locations the three wards in the Central Business District of Tokyo. The interviewee declared that all the criteria enumerated under Question 11 (see Questionnaire in the Annex) are important for its company when considering

investment decisions, since they affect the quality of the area environment and its future growth prospects, although clearly not all these criteria are relevant for specific investment decisions.

The land use and building code regulations, or the Public-Private Partnerships for instance, are important for large real estate developers, who collaborate closely with different levels of government when initiating, building and completing large development projects, essential for the urban structure of Tokyo. However, the company monitors any changes in all the criteria listed under Question 11 in the Questionnaire as they have the potential to increase the profitability of certain types of investments in specific areas in the city.

Interviewee 3 is Vice President of the Real Estate Investment Banking Division of a leading Japanese Financial Group, which owns, manages and invests both directly and indirectly in real estate assets in the CBD of Tokyo. In terms of the number of real estate securitizations and other arrangements made in 2008, the company was top of the industry, closing 90 contracts worth a total of ¥1,341.7 billion.

The interviewee confirmed that office space is the real estate asset that his company considers as the most attractive in Tokyo on a risk-adjusted return basis. It is much more convenient to invest in office, compared to residential assets, primarily for two reasons: in the case of office building, the asset is large, physically, and therefore the investor can predict the cash flow since office real estate usually doesn't have many tenants (having less than 100 tenants allows an easy evaluation of the real estate value by the investor). In the case of a residential building, the asset is physically small and the investor cannot predict the cash flow since residential real estate assets usually have many tenants (having more than 100 tenants makes it difficult for the investor to evaluate the real estate value). There is also a disadvantage regarding the financing bank, which has to check all the tenants to whom it offers loans.

Interviewee 3 also confirmed the finding of the questionnaire, according to which the most important criteria the company considers when investing in office class-A buildings is the asset location. The preferred location to invest in office class-A buildings in Tokyo is the CBD of the city, the wards of Chiyoda, Chuo, Minato. Other criteria are the rentable area and

standard floor area per each level, which must be spacious, as per the specific requirements of the tenants, which are important corporations who demand class-A office in central Tokyo, not necessarily for accommodating their staff, but for representation purposes.

The main reason for investing in real estate is the return on profit, while the reason behind the allocation of funds across different asset classes with real estate as percentage of investment is business enhancement. The company invests in real estate just for enhancing the business. Many criteria, such as risk, time horizon, liquidity, management burden and expertise, funds available for investment, all these criteria are important, but they do not have a direct influence on specific investment decisions. In Japan in general, and in the CBD of Tokyo in particular, the name of the asset manager is very important (i.e. Mitsubishi Estate, Mori Building, Mitsui Fudosan), guaranteeing a high quality management and therefore making investments in buildings managed by such companies a more attractive option. This particular finding has been confirmed by 87% of all respondents to the questionnaire, including those working for market research companies.

The market conditions at the time of investments are important when considering investing, depending on the trend of the capitalization rates, the market availability of different securitized products, such as CMBS loans, each with its own complexity and level of volatility. They influence the company's general attitude towards investments at a particular point in time. The economic crisis itself has an influence on the terminal capitalization rate and cash return and it affects different types of investment, but certainly not investments in class-A office buildings located in the CBD of Tokyo.

The complexity of securitization is an important element of the real estate market. In the case of Tokyo's real estate market, life insurance companies prefer to invest entirely through Special Purpose Companies (SPC) because it is tax free, but also because it gives them the possibility to be practically the direct investors, as long as the SPC is entirely owned by the investor. The SPC allows the owner (life insurance companies in this case) to sell the shares expediently, partly or entirely, at any point in time, without involving the actual "mother" insurance company. Again, all 36 respondents to the questionnaire agreed with the fact that the introduction

and the increased complexity of securitization on the real estate market plays a fundamental role in making investments more attractive.

The company considers financial regulation of real estate market investments an important element for the overall market environment, but not necessarily for specific investments. As revealed by the interviewee, for instance a law that requires financial advisory companies to acquire an asset management license makes business more difficult. More specifically, companies dealing with financial products have to apply for an investment management license, also called advisory license.

Resonant with literature reviewed earlier (Jackson and Orr, 2011), the only urban planning regulations the company takes into account when making investments are the zoning regulations: it would not consider investing in an area which is near an industrial zone, preferring the more centrally located assets, such as office class-A assets that are mainly located in the central business district of Tokyo.

Interviewee 4 is the Managing Director of a leading provider of investment banking, sales and trading, securitization, and real estate

products and services. The company is the local subsidiary of one of the largest investors on the global financial market.

This interviewee did not release any information on the investment portfolio the local subsidiary manages in Japan. Also, this interview was less conclusive than the others. One reason could be the local secrecy and hierarchy culture mentioned in the thesis Chapter on methodology, which makes local managers of subsidiaries of large international companies be more reluctant when referring to the specificity of the local market and their own operations on the local market, than the managers of large Japanese companies, who are more willing to engage in in-depth discussions and provide more extensive market information and personal evaluations.

The interviewee declared that governmental policies, the trends in the development of surrounding areas, as well as the complexity of securitization are important elements that influence his company when considering investments in Tokyo.

The interviewee also declared that regulations are important generally, but the investment in real estate is not well developed in Japan and Tokyo, compared to London or New York. Japan has a large size real

estate market in terms of numbers of assets, but there is comparatively less investment in real estate assets, confirming the MLIT (2008) report quoted in the previous section, as well as the statements of Interviewees 1, 6 and 7.

The interviewee mentioned that one reason for this comparatively lower market development is the governmental legal framework that makes difficult to invest in real estate. When asked to follow up on this particular answer, since it pertains to the role of government regulations, the interviewee mainly referred the difficulty of foreign companies to invest directly in assets, as well as to the difficulty of setting up real estate management companies that would compete with the locally established brand names. He also referred to regulations pertaining to land development and large urban development projects, which are the almost exclusive interest of large Japanese conglomerates that own and develop assets, investing directly and indirectly on the real estate market, while also providing investment services to foreign clients.

The interviewee also mentioned the scarcity of official information, such as land price, volume and value of actual transactions. Therefore, international institutions and companies find it difficult to invest in real estate

in Japan, as long as data is not available in an international language, i.e. English, again confirming the MLIT (2008) report quoted in the previous section.

The interviewee mentioned as important elements for consideration the urban planning regulations, the present and future role of the district and the appropriate floor ratio area in the district. The interviewee also answered that his company constantly attempts to discuss and negotiate with the government the regulations of real estate investments in land and buildings in the Central Business District of Tokyo.

Interviewee 5 is Group Leader and Chief Project Manager Architect, with a leading Research Institute associated to one of the largest Japanese companies that owns, manages and invests in real estate assets in the CBD of Tokyo. The research institute offers market studies to any interest client, while being the primary provider of market research services to its mother company.

The interviewee offered the examples of the mother company when developing projects in the CBD of Tokyo as illustrative for the leading Japanese conglomerates present on the real estate market.

Historically, leading Japanese companies developed land in the area where the CBD of Tokyo is located today, investing in a variety of assets (primarily office buildings), mainly because of their own need to have their own headquarters, but also to the suitability of the area to meet the requirements for class-A office buildings, such as the central position close to the up-market commercial areas of Ginza and Ueno, the accessibility offered by close vicinity to Nihonbashi, historically the key node of the Japanese transportation system.

Interviewee 5 stated that Tokyo's real estate market is strongly influenced by local leading companies with historically established reputations, who developed corporate brand names recognized even internationally, who cemented their relationship with various level of government across time. There is virtually no important urban development project in the CBD of Tokyo whose initiation and completion is not under the influence of these companies, which own most of the assets in this area. The close connections with the regulators (both city and national governments), and the development of subsidiaries offering real estate market investment services, turn the leading Japanese companies into reliable providers of

securitized investments, as well as trustworthy asset managers. This statement confirms the statement of Interviewee 3 and 87% of all questionnaire respondents.

The interviewee had mentioned that the recent financial crisis has had an impact on direct investments in land and buildings for institutions considering investing or developing real estate projects. It particularly affected the relation between investors and banks, which were less opened to money lending under economic crisis circumstances. It could also lead to a significant reduction of return on investment through a possible increase of the vacancy rate, which in turn has the potential to lead to the bankruptcy of some investors. The vacancy rate for offices in the central business district of Tokyo (depending on location) increased by 5% at the beginning of 2009. An increase of more than 10% would be considered a problem with significant effects on investments.

Quoting STBRI (2008), the interviewee mentioned that the reason for the sharp increase of vacancy recorded at the end of 2009 is partly the outcome of the withdrawal of foreign companies from the Japanese market as a result of the consequences of the financial crisis on their home market,

particularly financial institutions that closed deals in real estate indirect investments.

Interviewee 6 is the Director of a leading Research Institute, providing services related to the real estate market in Japan. The interviewee declared that the acquisition value of assets under management of private funds in Japan steadily rose from 2004 until 2008, confirming the information presented in the ARES (2009) report quoted in the previous section. This rise is illustrative for the growth of the real estate investment market of Tokyo before the economic crisis, due to the regulations implemented by the central government encouraging financial investments on the real estate market.

The interviewee noted that Japan was positioned as the second country in the world after the United States in 2006, as real estate market by investible stock, with a value of investible stock of almost 2,000 US\$ billion out of which more than 1,000 US\$ billion is actually invested (by investible stock understanding investment-grade properties). The invested stock refers to those assets which are currently owned by professional real estate investors such as money managers, funds, private investment vehicles, listed companies, etc.

Making reference to the MLIT (2008) study, the interviewee mentioned that the real estate stock of Japan counts for 2300 ¥ trillion of total land and buildings, from which 490 ¥ trillion represents the corporate own-use real estate excluding individually owned residence. Furthermore, 68 ¥ trillion of the total mentioned earlier is income-producing real estate. Out of all the income producing real estate, approximately 50% (41 ¥ trillion) of securitized real estate is owned by private funds and J-REITs. The size of office stock for lease in Japan in 2006 was about 61 million sqm, out of which 51.9% is located in Tokyo.

Quoting the STBRI (2007) survey, the interviewee mentioned a list of reasons for investment in real estate by foreign funds in Japan, according to the order of importance: necessary investment allocation in a global portfolio (27%), yield gap due to low interest rate (25%), high stability of investment returns (16%), large size of real estate market (15%), investment opportunity (11%), transparency of real estate market (3%).

The interviewee mentioned that the gradual, increasingly stronger, introduction of real estate securitization by the government since the late 1990s played an essential role in the revival of this market: the United States

opportunistic funds brought an end to the free falling market, reigniting its growth.

Confirming the findings of literature reviewed in Chapter 4, section 4.3 on the convergence of the real estate market and the investment market, the interviewee mentioned the important role of the Japanese government in this process. The interviewee specifically mentioned that the Japanese government supported the development of the infrastructure for securitization of real estate by introducing tax pass-through vehicles, such as J-REIT and Tokumei Kumiai, real estate management trust, bankruptcy remote SPC. The interviewee also mentioned that a factor leading to market growth were the banks, which became more aggressive in the non-recourse loan business, financing an increasing number of real estate deals and investments

Regarding the market evolutions throughout the 2000s: two J-REITs were listed in September 2001 and the J-REIT market has rapidly grown to 42 J-REITs; high performance of private investment funds attracted both foreign and domestic institutional investors, which had an impact, as the cost cut and value adding strategies overcame the weak leasing market, while a flow of funds surged to the market and compressed the capitalization rate.

Regarding the development of the real estate market index, reliable data based on J-REIT disclosures has been available from the research institution IPD Japan, which provides an index based on J-REIT disclosure that is available since 2003.

Different types of investors are concerned with all the regulations mentioned in the questionnaire, depending on their profile. The leading Japanese companies that develop land and work closely with the city and national governments are interested in matters related to urban planning regulation, such as building code and land-use regulation, often negotiating this type of regulation with the government.

All investors (direct and indirect) are interested in the fiscal regulation of real estate market investments, more specifically in the availability of tax pass-through vehicles (all questionnaire respondents mentioned that; the introduction of special investment vehicles by the government has responded to this interest attempting to make the real estate market more attractive through a more favourable taxation policy. Investors who own and rent out buildings for a while in search of return on their investments, such as some asset management companies, are interested in tenure laws and

conventions. The present state and future role of the district is of interest mainly for developers but also to some extent for asset management companies, while the appropriate floor area ratio in the district is of interest for asset management companies.

Confirming the findings of the research in Chapter 4, sections 4.1 and 4.2 in the current thesis, the interviewee stressed the role of regulations, which has been increasingly important throughout the 2000s, having an influence on the investment decisions of institutions operating in the real estate market of Tokyo. Various regulations promoting urban revitalization were passed in 2002, 2003 and 2006, regarding the areas designated for development, the investments in suburban shopping malls or the technical examination process for buildings. These interview findings confirm the secondary source research presented in Chapter 4, section 4.1 on the role of regulations in developing the real estate market of Tokyo.

Interviewee 7 is Director of Land and Real Property Market Division, with a central public administration institution in the national government of Japan. The interviewee chose to refer only to the general characteristics of the Japanese real estate investment market, confirming the statements of

Interviewees 1, 4, 6 and the MLIT (2008) report. The interviewee mentioned that Japan is positioned as the second country in the world after the United States in 2006, as real estate market by investible stock, with a value of investible stock of almost 2,000 US\$ billion out of which more than 1,000 US\$ billion is invested. The invested stock refers to those assets which are currently owned for profit purpose by professional real estate investors such as money managers, funds, private investment vehicles, listed companies, etc, while the investible stock means investment-grade properties, whose quality makes them investment options for professional investors. The overall Japanese investible stock is clearly underinvested (around 50%), despite Japan being the second country in the world after the United States as real estate market by investible stock. Most of the investments are in the city of Tokyo, particularly in the business area, while 51.9% of the total Japanese office stock for lease is also located in Tokyo. The interviewee declined to comment on other questions such as the openness of the market to foreign investors, the influence of leading real estate developers on specific urban development regulations or the elements that influence the investment decision of real estate market investors.

The main findings of the questionnaires and the interviews can be summarized as follows: the Central Business District of Tokyo is the preferred investment area for all real estate market investors, being overinvested compared to the rest of the city and particularly to the rest of the country, while the preferred investment asset is office space.

The securitization of the real estate market and the gradual development of various securitized products have been mentioned as essential for making the market attractive to financial investments by all respondents and interviewees. An important peculiarity of the real estate market of Tokyo is the importance of long-established asset managers, such as Mitsubishi or Mitsui, who act as a guarantee for the return on investments. This can explain why foreign investors are major shareholders in local companies with established brand names, as I evidenced in more detail in Chapter 4, section 4.3: 50% foreign ownership of Mitsui Fudosan and 40% of Mitsubishi UFJ (STBRI, 2008).

The interest in urban planning and regeneration projects is high among the leading Japanese conglomerates that invest directly and indirectly, own and develop assets, while also offering financial management

services, while the subsidiaries of foreign companies that invest in securitized products or directly manage assets are not interested in the regulations of such projects directly.

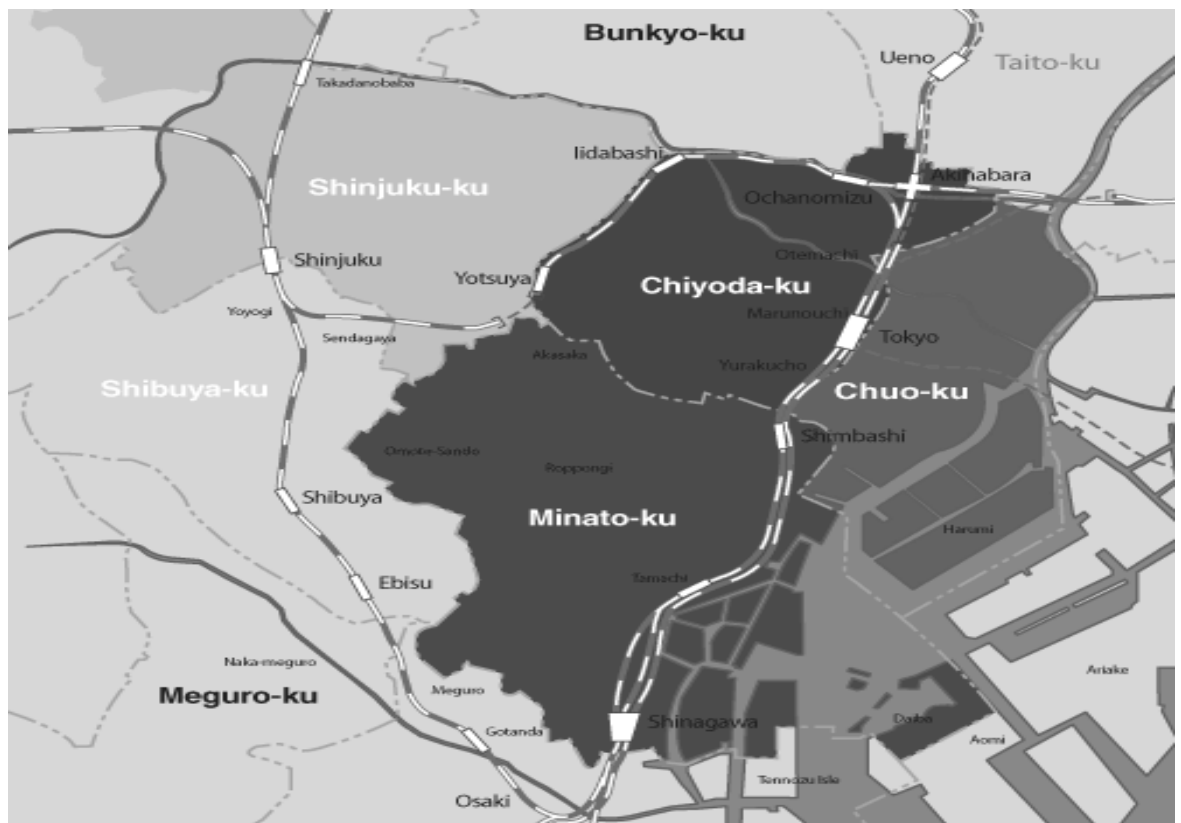
All respondents who chose to answer the importance of taxation of real estate investments (Questions 27 – 30 in the Questionnaire) mentioned that the level of taxation in itself is not a criterion, but the availability of pass-through investment vehicles is an important factor attracting investors on the real estate market of Japan. Another finding of the questionnaires and interviews is that the Internal Rate of Return (IRR) is widely used as a performance indicator, but it is not essential when making specific investments, intuition, prior knowledge and experience with similar situations playing a more important role.

All four interviewees who work for financial investment institutions and hold important managerial positions mentioned that the economic crisis made their companies more cautious when investing in Tokyo, all preferring to wait and monitor the market evolution and none of their respective companies considered acquiring real estate assets on foreign markets.

5. Presentation of a major real estate investor in Tokyo: the Mitsubishi Group

The current chapter presents the investment patterns of one of the three leading real estate investment players in Tokyo, namely the Mitsubishi Group. The purpose is to highlight in more detail important features of real estate investments, offering empirical information relevant for a major market actor. The central business district of Tokyo includes the wards of Chiyoda, Minato and Chuo, which are mainly dominated by three Japanese corporations that own land and have their headquarters located here (see below the map of the three main areas in Tokyo's Central Business District²).

² Source: http://www.sankoestate.com/market_info/vacancy.html



The local character of Japan has profoundly influenced the behaviour of corporations regarding businesses and investments in real estate in central business district of Tokyo. The major players on the real estate market of Tokyo are the Mitsubishi Group, which owns land and buildings in Chiyoda, the Mitsui Group, which owns land in Chou and Mori Building, which owns land in Minato.

Moreover, these three major corporations tend not to compete with each other regarding investments in their respective areas of the city. Real estate acquisitions by one of these three major Japanese corporations in the

area where the others are dominant have been mainly exceptions. Such acquisitions occurred only as outcome of specific opportunities that did not cause any inconvenience to the major owner of that particular area. All the three companies deal with both direct and indirect investments, and choose to invest in office type of real estate in the central business district of Tokyo.

The history of Japan's first office district goes back to 1890, when most of the land owned by the army was sold to the private sector. Japan's economic recovery after the Second World War presented high demand for office buildings in the central area and, as a consequence of these trends, many developers built large-scale office buildings in Marunouchi and Yurakucho areas during the 1950s and 1960s. More land had been added to extend the business district in 1957, when the government relocated its offices to the Kasumigaseki district and sold to the private sector vacated land located in the Otemachi district.

Media organizations and financial institutions acquired the land in order to establish headquarters in the center of Tokyo. During the 1970s and 1980s, the trend toward globalization brought many Japanese and foreign companies to establish headquarters in Tokyo. However, the area offered

limited office space when the demand for space was very high. The Tokyo Metropolitan Government addressed the issue in 1986 by promoting the redevelopment of the area under its Central Area Development Guidelines (OMY District Redevelopment Project Council, 2007).

In Chiyoda, many of the buildings were completed during the redevelopment project of the district areas of Otemachi, Marunouchi and Yurakucho. This project is currently underway having been initiated in 1988 and aimed to complete in 2013 when the last building was expected to be finished, involving more than 60 private investors, Mitsubishi being the most important³.

The Mitsubishi Group is one of the three major players on the Tokyo real estate market (alongside Mori and Mitsui). Mitsubishi Group owns most of the land of Chiyoda ward, where—as stated above—the other two major companies are not present as asset owners. The company deals with both direct and indirect investments, and chooses to invest in office type of real estate in the central business district of Tokyo, particularly in Chiyoda.

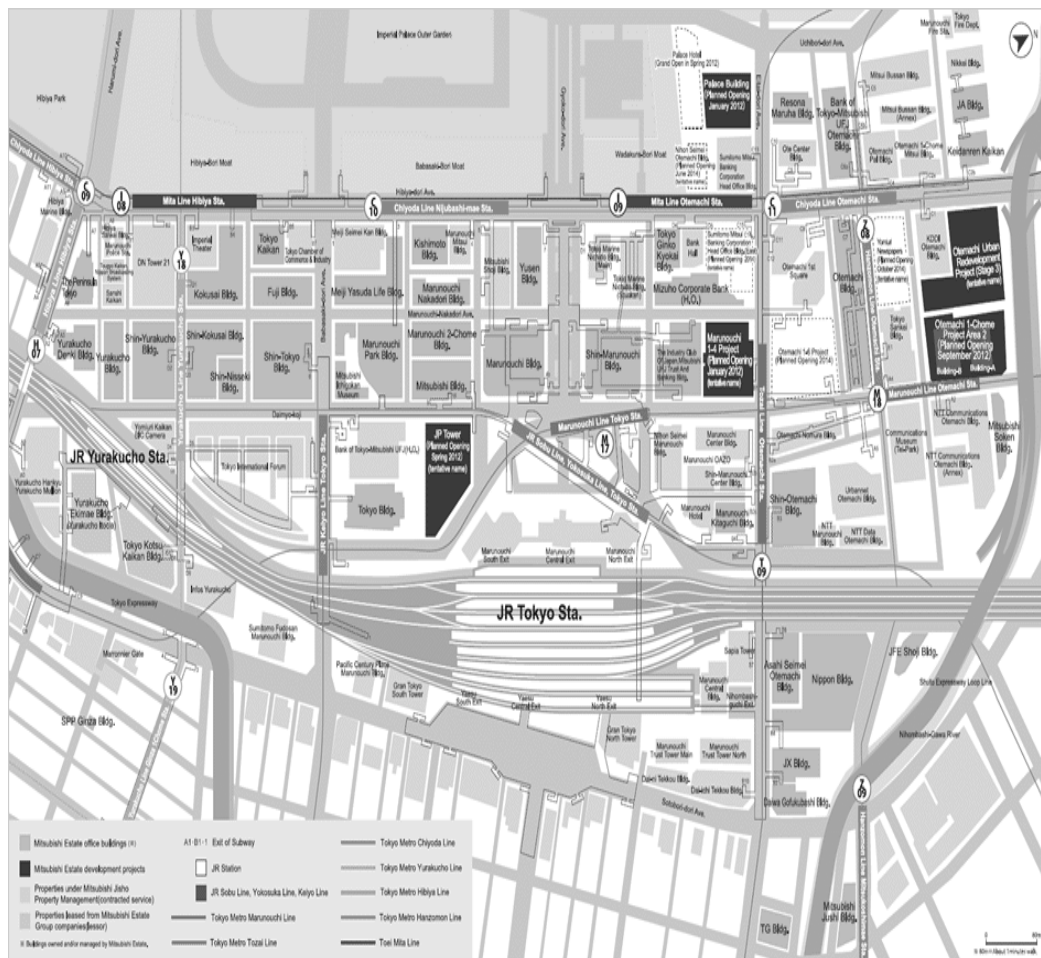
³ For a detailed map of buildings and infrastructure, including those owned by Mitsubishi in this redeveloped area around Tokyo Central Station, Report available at: <http://www.otemachi-marunouchi-yurakucho.jp/images/engreport200804.pdf>

The Mitsubishi Group is a Japanese conglomerate consisting of a range of autonomous businesses, which share the Mitsubishi brand, trademark and business legacy. Two of its core companies, Mitsubishi Estate and Mitsubishi UFJ Securities deal with direct and indirect investments in real estate.

Mitsubishi Estate is one of the core Mitsubishi companies. It was established in 1937 and it is involved in real estate management and architecture research and design, it deals mainly with direct investments in real estate. Mitsubishi Estate had been among the first private companies that bought land from the government in 1890. By 1988, it has established itself as one of the major real estate players in Tokyo and Japan, owned considerable land in Chiyoda and was seeking to collaborate with the government in order to develop a large scale project of office buildings, including its own headquarters. The reason for investing in developing a project that would include office buildings was mainly related to the need of the institution to have its own headquarters, but also to the suitability of the area to meet the requirements for this type of building, such as its central position close to the up market commercial areas of Ginza and Ueno, and

accessibility offered by close vicinity to Nihonbashi, the key node of the Japanese transportation system at that time (Interviewee 5).

The buildings developed in central Tokyo by Mitsubishi Real Estate headquarter today a large number of major domestic and foreign companies engaged in economic activities.



Map showing the buildings owned by Mitsubishi Estate in Marunouchi; Source: http://office.mec.co.jp/info/marunouchi_e.jsp

Mitsubishi Estate owns a total of 53 office buildings located in the central business district of Tokyo three wards, of which 41 are in Chiyoda (35 of them were built as part of the Otemachi, Marunouchi and Yurakucho project and other 6 new buildings are currently in process to be completed), 7 in Minato and 5 in Chuo which makes it Japan's second largest real estate developer after Mitsui Fudosan⁴. Mitsubishi Estate is the largest real estate owner of land and buildings located in Chiyoda (MEC, 2009).

Local specificity is the principle driving the investment in real estate development, resonant to literature reviewed earlier (Machimura, 1994): Mitsubishi Estate invests in the central areas where it already has real estate developments and owns most of the land. The company's core area of investment is Marunouchi, where Mitsubishi Estate has the policy of not selling any of its assets. Mitsubishi Estate sells only those real estate assets that it owns outside Marunouchi.

⁴ For a comprehensive view of the buildings owned by Mitsubishi Estate in Tokyo, as well as the characteristics of each of these buildings, source: http://office.mec.co.jp/lineup/bldg_list?l=E An interactive map with the vacancy rates and the location of the Mitsubishi owned buildings around Tokyo central station is also provided: <http://office.mec.co.jp/index?l=E>

The decision of investing directly in Chiyoda, by developing a project that would include mainly office buildings, took into consideration the negotiations with the local government regarding aspects of building and land use regulation. Central Ward Area Development Guidelines of the Tokyo Metropolitan Government (City Planning Guidelines formulated in 2000 and revised in 2005) defined a few goals that the city should achieve and the landowner should consider when deciding to invest in development projects in the district. The local government aimed to promote urban development that would turn the city of Tokyo into a world leader in business, a metropolis bustling with people, a major centre of information, retaining its traditional tranquillity while developing dynamic activities, a city that is convenient and comfortable, while environmentally friendly, safe and secure, basing its development on the cooperation of community, government and visitors (MEC, 2009).

The owners, who invested in a project located in this area, were interested in particular aspects, such as assessing governmental policies and trends in the development of surrounding areas, evaluating the financial and monetary procedures such as securitization of real estate, evaluating the

possibility of specific measures offered by public-private partnership. They were also interested in the possibility to negotiate with the Tokyo Metropolitan Government matters related to urban planning such as Building Standards Law, the present state and future role of the district, appropriate floor area ratio in the district (OMY District Redevelopment Project Council, 2007).

The international outreach of Mitsubishi Estate is not significant: it owns two assets, one in New York and the other in London (MEC, 2009). Mitsubishi acquired its stake in the Rockefeller Center in New York in 1989 and 1990, the investment totaling \$1.4 billion for its 80 percent interest in the Rockefeller Group Inc. This is the only investment Mitsubishi made in the United States. However, Mitsubishi sold considerable parts of the real estate composing the Rockefeller Center since its initial investment and currently owns a very small part of it (RGI, 2009).

Mitsubishi Estate was involved in the development of the Paternoster Square in London, which headquarters a number of important companies and financial institutions today, including Goldman Sachs, CB Richard Ellis and the London Stock Exchange. It is the only real estate that Mitsubishi

Estate owns in the United Kingdom. Mitsubishi Estate Corporation purchased the shares of both business partners in 1995, British developer Graycoat Corporation and American developer Park Tower Corporation, in order to achieve full control of the project (MEC, 2009).

Mitsubishi Estate became involved in the Paternoster Square Redevelopment Project for the purpose of establishing a base in London and pursuing development profits as a developer. Long-term cash flow has been secured through the completion of long-term contracts (about 20-25 years) with the key tenants of each building before building construction commenced. The Paternoster Square Redevelopment Project includes six-building complex housing offices and stores with a total floor area of approximately 99,000 square meters, where Paternoster Associates (including Mitsubishi Estate Corporation) developed only four of the six buildings. The company decided to sell one of the buildings composing the development in 2002. The reason, as announced by the company at that time, mainly regarded the favourable conditions in the real estate investment market (MEC, 2009).

Mitsubishi UFJ Securities is the investment banking arm of the Mitsubishi UFJ Financial Group, a financial services company which is the largest in Japan measured by assets. The company was established very recently, only in 2005. Given the corporate backing of the mother company, it is one of the industry leaders in real estate securitization, dealing with indirect investments in real estate.

Mitsubishi UFJ Securities is involved in a broad spectrum of operations related to real estate securitization. Its services cover areas such as liquidation and securitization of real estate and structuring of private equity funds to Initial Public Offering (IPO) advisory services and underwriting for real estate investment trusts and principal investment. In terms of the number of real estate securitizations and other arrangements made in 2008, Mitsubishi UFJ Securities was top of the industry being involved with 90 deals worth a total of ¥1,341.7 billion (approximately 9 billion pounds sterling) (MUFJS, 2009). On the asset-backed securities (ABS) league table, Mitsubishi UFJ Securities ascended to the top position in 2006, handling ABS underwriting and private placement deals worth a total of ¥1,450.9 billion (approximately 9.8 billion pounds sterling), far ahead of the second-placed

company (MUFJS, 2007). It delivered an industry-leading performance in regards to real estate securitization, arranging 84 transactions with a total value of ¥936.3 billion (approximately 6.3 billion pounds sterling). According to data regarding ABS underwriting and private placement based on Nikkei Bonds & Financial Weekly from 2007, Mitsubishi UFJ Securities was placed on the top position with 31 issuances worth a total of ¥1,450,920 million.

6. Conclusions: real estate investment in Tokyo by financial institutions in times of globalization

The current research project attempted to find out if the urban planning regulations and the regulations of financial investments on the real estate market devised by the national government of Japan and the local government of Tokyo had any role in attracting investments from global and local (Tokyo-based) financial institutions (i.e. banks, insurance companies, pension funds, etc.) on the real estate market of Tokyo. Given the global IFC status of Tokyo, the way regulations shaped the real estate market, particularly its openness to international financial investments, reveals the extent to which Tokyo's real estate market is part of a network of globally interlinked real estate markets, as described by Lizieri and Pain (2014).

Despite its important role in the global economy, the real estate market of Tokyo is under the control of local companies, which collaborate closely with the regulators, national and city governments, in order to promote their own economic interests. This is resonant to Parker and Amati (2009): the strong ownership rights over important land and building assets in the Central Business District of Tokyo enabled the leading Japanese

companies to influence the drafting of legislation and consequently to promote their own economic interests on the real estate market of Tokyo.

Despite its integration into the global economy, Tokyo's CBD real estate market is essentially the by-product of a close collaboration between the national and local governments with the leading three investors in real estate (all Japanese corporations). While influencing the government policies, these companies act as an interface between global capital and the local real estate market, offering investment opportunities to foreign capital, while actually owning and developing prime real estate assets in the Central Business District of the city.

The findings reported in chapters 4 and 5 make it very clear that the successive changes of the regulations of financial investments on the real estate market and the regulations regarding the density and zoning have both been strongly in favour of vested local interests historically present on Tokyo's real estate market. The regulatory changes have enabled more money to be attracted into the sector through more intense development and through the various forms of securitisation which improved liquidity and facilitated portfolio management.

As a consequence, Tokyo's real estate market is difficult to access directly by foreign investors, who prefer to purchase shares in locally established companies, while local investors are rather reticent when investing outside of their market in the real estate markets in other geographical settings.

Therefore, Tokyo can be described as a global city where the local character has a significant influence on the behaviour of corporations regarding businesses and investments in real estate in central business district of the city. The availability of real estate assets in the most desirable investment area in the business centre of the city market is reduced by the almost exclusive asset ownership of leading Japanese companies. Furthermore, Japanese companies exert a significant influence on the real estate market, acting as both developers and investors and as managers of investments made by others, as evidenced by the case of the Mitsubishi Group.

Among the empirical findings, the local cultural factor, such as the name of the asset manager (i.e. Mitsubishi, Mori or Mitsui Fudosan) is essential when making an investment, as well as the location of the asset,

the Central Business District of Tokyo being a prime location, attracting the largest volume of investments overall, compared to other areas that have a different urban function.

The theoretical relevance of these empirical findings in the context of the literature reviewed earlier indicates that the physical space influences the type of market, while the market in itself is a social construction, at least in the case of Tokyo. Resonant to Harvey (1985), the current research reveals that space is a social construction, reflecting the identity of a given society, while its long-lasting character shapes the self-image of individuals, their values and their way of understanding the world.

As revealed by the empirical findings of the current research, the Japanese companies are more local than global in their approach to the Tokyo real estate market as a financial investment market, while their economic and political goals are not all that different from those of the more local/national entrepreneurial classes, who had traditionally used urban landownership for industrial usage in order to promote their interests (Kivell, 1993).

The current empirical research findings confirm my initial assumption according to which the act of planning existent in various national settings attempts to capture and represent the social and political aims of local communities and frame the urban space according to these aims. The regulation of the Japanese urban space, as well as of the Japanese real estate investment market, as revealed by the study case of Tokyo, allow for certain types of investments while denying others, exactly as the partitioning of a built living environment or the layout of a neighbourhood allow only for certain types of behaviours and activities (Jacobs, 1961).

The real estate market regulations as well as urban planning regulations are a by-product of local environment, incorporating rules and norms that shape the investment behaviour. From this perspective, the current empirical research findings confirm the argument of markets as cultural constructions (Guy and Henneberry, 2000, 2002; Pryke and Du Gay, 2002; Smith et al. 2006).

The current empirical findings also reveal that global real estate investors are not directly influenced by the local urban planning and real estate market regulations in Tokyo. Most of the foreign investments in the

real estate market of Tokyo, particularly in the office business area in central Tokyo are indirect ones, through local companies which invest under the significant influence of the name of the asset manager. The leading local companies are further influencing the investment patterns of foreign investors in the real estate market in Tokyo, through the control over physical assets and their established corporate reputation, by positioning themselves between the international investors and the market.

The investment market has become increasingly uniform as a result of the globalization of economic activity (Ball et al., 1998). The study case of Tokyo indicates that while the investment patterns (increasing levels, preferred assets, similar investment vehicles) might be increasingly similar, the way the market functions is not necessarily following the same pattern of liberalization and globalization.

The study case of Tokyo confirms the assumption that government agencies have an important role in shaping the real estate market: define and protect real estate, organize and enforce a legal system, provide protection for owners and regulate the use of real estate, administer real estate taxation, facilitate financing, insure and guarantee mortgages (Weimer,

1960). Although the regulation of the market attempted to make it more attractive for investments, as I have shown earlier, the local specificity prevailed and the inelasticity of the supply of land and built environment continued to be constant in the case of Tokyo, because of the way the local leading companies operate.

Future research on the real estate market of Tokyo is needed, in order to establish with more precision, supported by more accurate empirical information, its degree of openness to international flows of capital. The shortcomings of the current research, which I mentioned in the Chapter on methodology, did not make possible more precise empirical research finding out the actual number and types of foreign companies operating on the real estate market of Tokyo, the structure of their clients, their volume, number and value of investments compared to the investments of local Japanese companies. Such a comparison would be instructive and would further the research on global cities and the openness of their real estate markets to foreign capital.

An improved empirical research would have to overcome the local secrecy and the strong hierarchy corporate culture, which in the case of the

current research led to an initially low response rate to the questionnaires, and then to the return of questionnaires filled in selectively. This situation in turn made necessary actual direct interviews with the high level managers, in order to obtain clarifications by following up with additional questions. Therefore, a better organized empirical field research is needed in order to come up with more accurate data, backed by hard numbers, on the openness of Tokyo's real estate market to the global economy.

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8. Appendixes

1. Financial regulations for real estate investments

1987	The provision of small lot trust type real estate products.
1989	The provision of small lot partnership (Ninni-Kumiai) type real estate products.
1990	The real estate conversion loans by the Japan Railway Construction Public Corporation (JRCC) of the Japanese National Railways (JNR) Settlement Headquarters.
1995	The enactment of the Real Estate Syndication Act. The establishment of the first "lease type" product based on the Real Estate Syndication Act. The establishment of the first "silent partnership (Tokumei-Kumiai) type" product based on the Real Estate Syndication Act adopted due to tax considerations.
1996	The establishment of the first "partnership (Ninni-Kumiai) type" product based on the Real Estate Syndication Act.
1997	Important revisions of the Real Estate Syndication Act and regulations to its enforcement.
1998	The enactment of the law on securitization of specified assets by Special Purpose Companies (SPC), also known as Asset Monetization Law.
1998	Two structures for ownership of qualified assets - Special Purpose Companies (SPC) and Special Purpose Trusts (SPT) - were authorized by the law on securitization of specified assets by Special Purpose Companies.
1999	The revision of regulations to the enforcement of the Real Estate Syndication Act (minimum investment unit reduced from JPY 10 million to JPY 5 million; removal of a ban on transferring to third parties). The revision of Real Estate Syndication Act.
2000	The introduction of accounting 5 percent rule (enforcement of off-balance standards by the Japanese Institute of Certificated Public Accountants). The enactment of rules of registration of Property Investment

	<p>Advisors.</p> <p>The first registration of Property Investment Advisors.</p> <p>The revisions of the law concerning investment fund (investment trusts and investment corporations).</p> <p>The Building Lots and Building Transaction Business Law.</p>
2001	<p>Tokyo Stock Exchange established a market for real estate investment funds.</p> <p>The starting of approval for firms who are entrusted in relation to investment funds that invest to real estate investment and trust agent business subjecting real estate.</p>
2007	<p>The Financial Instruments and Exchange Law (FIEL).</p>

2. Description of interviewees

(Treated as anonymous at their request, the interviewees are employees of various companies active on the real estate market)

Interviewee 1: Director Investments Group, Investment Management Firm.

Interviewee 2: Director Head of Compliance and Risk Management Department, Asset Management Firm.

Interviewee 3: Vice President Real Estate Investment Banking Division Financial Unit, Financial Group.

Interviewee 4: Managing Director, Investment Management Firm.

Interviewee 5: Group Leader and Chief Project Manager Architect Urban Business Consulting Regional Management Group, Research Institute.

Interviewee 6: Director, Research Institute.

Interviewee 7: Director of Land and Real Property Market Division, Public Administration.

3. Interview with representatives financial institutions investing on the real estate market

Table 1-1 General information on the interviewee {7 questions}

Item/Question	Answer
1. Name	
2. Title	
3. Institution	
4. Address	
5. Tel/Fax	
6. Email	
7. Date	

Table 1-2 General facts regarding the institution investment decision-making process {7 questions}

Item/Question
8. How many office buildings does your institution own in the Central Business Area of Tokyo?
Answer:
9. What are the reasons why your institution owns a significant number of office buildings in the Central Business Area of Tokyo?
Answer:
10. Why not in other area of the city? What criteria does your institution consider when investing in office type of real estate (buildings or land for development of office buildings)
Answer:
11. Are the following particular aspects influencing the decisions of your institution when considering investing in a project in the Central Business Area of Tokyo? Criteria Yes/No 1. Governmental policies and trends in development of surrounding areas 2. Financial and monetary procedures such as Private Finance Initiative (PFI) 3. Securitization of real estate 4. Possible public-private partnerships 5. Matters related to real estate market regulation, such as variations in fiscal regimes (i.e. taxation and subsidies), tenure laws and

conventions (character of lease obligations, responsibilities for repair and insurance), the level of taxation on the capital gains on the real estate market, other locally specific regulations 6. Matters related to urban planning regulation, such as building code and land-use regulation 7. The present state and future role of the district 8. Appropriate floor area ratio in the district

Answer:

12. How does your institution see the importance of urban policies regarding land and buildings when making investment decisions?

Answer:

13. Is your institution considering investing globally such as buying land or buildings outside Japan?

Answer:

14. Would your institution consider increasing these acquisitions in the future and what would be the reasons behind this decision?

Answer:

Table 1-3 Considerations regarding the current crisis

Item/Question

15. Could you please express your opinion regarding the current crisis and its impact on the real estate market and investments

Answer:

4. Interview with representatives of real estate market research institutions

Table 2-1 General information on the interviewee {7 questions}

Item/Question	Answer
1. Name	
2. Title	
3. Institution	
4. Address	
5. Tel/Fax	
6. Email	
7. Date	

Table 2-2 General facts regarding the institution investment decision-making process {7 questions}

Item/Question
8. What is the volume of investments in office real estate recorded in the Central Business Area of Tokyo?
Answer:
9. What are the reasons why financial institutions prefer to invest in office real estate in the Central Business Area of Tokyo?
Answer:
10. Why not in other area of the city? What criteria does financial institutions consider when investing in office type of real estate (buildings or land for development of office buildings)
Answer:
11. Are the following particular aspects influencing the decisions of financial institutions when considering investing in a project in the Central Business Area of Tokyo? Criteria Yes/No 1. Governmental policies and trends in development of surrounding areas 2. Financial and monetary procedures such as Private Finance Initiative (PFI) 3. Securitization of real estate 4. Possible public-private partnerships 5. Matters related to real estate market regulation, such as variations in fiscal regimes (i.e. taxation and subsidies), tenure laws and

conventions (character of lease obligations, responsibilities for repair and insurance), the level of taxation on the capital gains on the real estate market, other locally specific regulations 6. Matters related to urban planning regulation, such as building code and land-use regulation 7. The present state and future role of the district 8. Appropriate floor area ratio in the district

Answer:

12. How do financial institutions see the importance of urban policies regarding land and buildings when making investment decisions?

Answer:

13. Are financial institutions considering investing globally such as buying land or buildings outside Japan?

Answer:

14. Would financial institutions consider increasing these acquisitions in the future and what would be the reasons behind this decision?

Answer:

Table 2-3 Considerations regarding the current crisis

Item/Question

15. Could you please express your opinion regarding the current crisis and its impact on the real estate market and investments

Answer:

5. Questionnaire applied to representatives of financial institutions investing on the real estate market

Table 3-1 General information on the institutional investor profile {12 questions}

Item/Question	Answer
1. Country	
2. Name of institution	
3. Headquarter location in Japan	
4. Established year of headquarter in Japan	
5. Industry	Tokyo Yes/No 1. Financial institution 2. Real estate development company 3. Asset management company
6. Investment type {Yes/No}	Direct investments (ownership of physical asset) Indirect investments (securities)
7. Investment vehicles {Yes/No}	Pooled investment vehicles (SPV) Investment funds (REIT, REIF)
8. Motive of acquisition {Yes/No}	Development Investment
8. Year started investing in real estate in Tokyo	
9. Currently investing in real estate in Tokyo {Yes/No}	
10. Investment area in Tokyo	Tokyo Yes/No 1. Chiyoda-ku 2. Chou-ku 3. Minato-ku
11. Investment sector	Category Yes/No 1. Office class A
12. Property type the institution sees as most attractive today on a risk-adjusted return basis	Commercial real estate Yes/No 1. Office

Table 3-2 Overview of the Investment Management Process from the perspective of local regulation (real estate market regulation and urban planning regulation) as part of the investment criteria {12 questions}

Item/Question	Answer
25. Is local regulation (real estate market regulation and urban planning regulation) part of the investment criteria or not? {Yes/No}	
26. Which of the real estate market regulations the institution considers when investing in real estate?	Real estate market regulations Yes/No 1. Variations in fiscal regimes 2. Level of taxation on capital gain 3. Tenure laws and conventions 4. Other (please mention)
27. Do you use taxation as a criteria to be considered when investing in real estate?	Criteria Yes/No 1. Corporate Tax 2. Real Estate Tax 3. City Planning Tax
28. Does the institution consider using tax free vehicles such as SPV? {Yes/No}	
29. Does the institution find the fiscal regime of the real estate market burdensome? Do you consider that the profit tax is high? {Yes/No}	
30. Is the institution considering the tax code & legal system when investing in real estate? {Yes/No}	
31. Are the tax code & legal system significant factors when determining investment allocations according to investment types? {Yes/No}	
32. Does the institution find the legal system easy to access? {Yes/No}	
33. Which of the urban planning regulations the institution considers when investing in real estate?	Urban planning regulations Yes/No 1. Building code 2. Land-use regulation

<p>34. Parameters considered when investing in a Class A Office type of real estate</p>	<p>Income Yes/No Outcome Yes/No 1. Rent level 2. Building age 3. Number of tenants 4. Building characteristics 5. Rentable area 6. Total floor area 7. Ceiling height 8. Security & access</p>
<p>35. Urban planning regulations that has impact on investment decision of institution when investing in real estate</p>	<p>Urban planning regulations Yes/No 1. Building height and sunshine regulation 2. Protection of rice paddies 3. Other (please mention)</p>
<p>36. Which of the urban planning regulations listed next had an impact on investment decisions regarding real estate investments of your institution in Tokyo?</p>	<p>Urban planning regulations Yes/No 1. 2001 Phony Examination (examination process for buildings in case of earthquake) 2. 2002 Urban Revitalization Law (urban development projects) 3. 2006 Urban Revitalization Law (suburban shopping centres) 4. Other (please mention)</p>