

An overview of foreign capital real estate Investors
and Lenders operating in Japan

Optia Partners K. K.



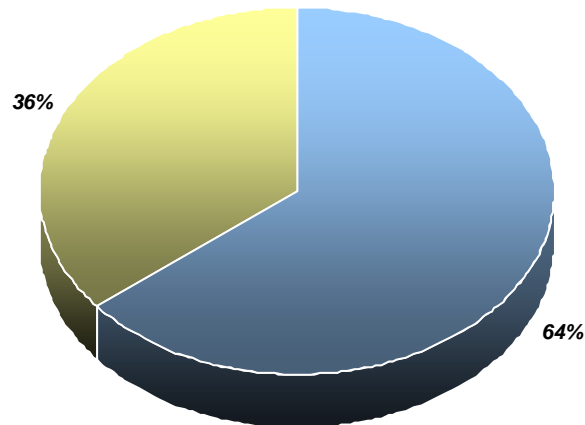
How many foreign capital real estate investors currently have offices in Japan?

Optia estimates there are approximately 75 foreign capital real estate investors which currently have an investment platform in Japan (we have 70 on our records). Many of these investors are versatile in their approach and investment criteria, however for the purpose of this report we have grouped investors into 2 key categories depending on their current strategy and key discipline as an investment manager.

1. *Distressed/Opportunistic Investors*: These include hedge funds, special situation and opportunity funds as well as institutional players investing in distressed and other special situation investments on a proprietary basis.
2. *Real Estate Hard Asset Investors*: These include investment managers who are more sensitive to risk, targeting hard asset investments usually for longer holding periods.

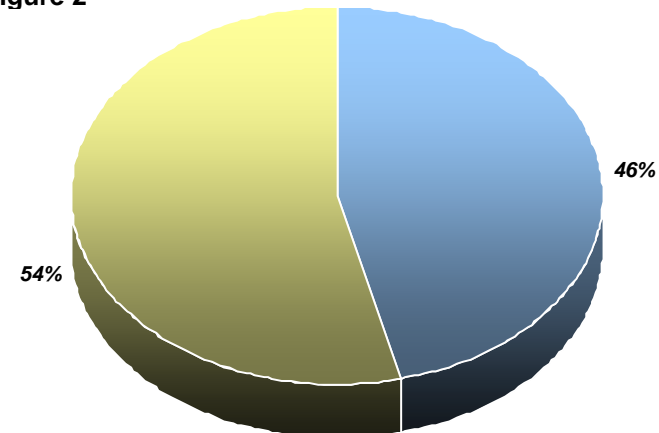
As a percentage of the 75 firms currently with offices in Japan, the number of funds with an investment focus on real estate hard assets well exceeds the number of opportunistic investors (Figure 1). Paradoxically however it is the Opportunity Investors who hire the majority of staff – approximately 54% (Figure. 2). This is due to the fact that there are several Opportunity Investors that staff between 100-300 people.

Figure 1



■ Hard Asset Investors ■ Distressed/Opportunity Investors

Figure 2

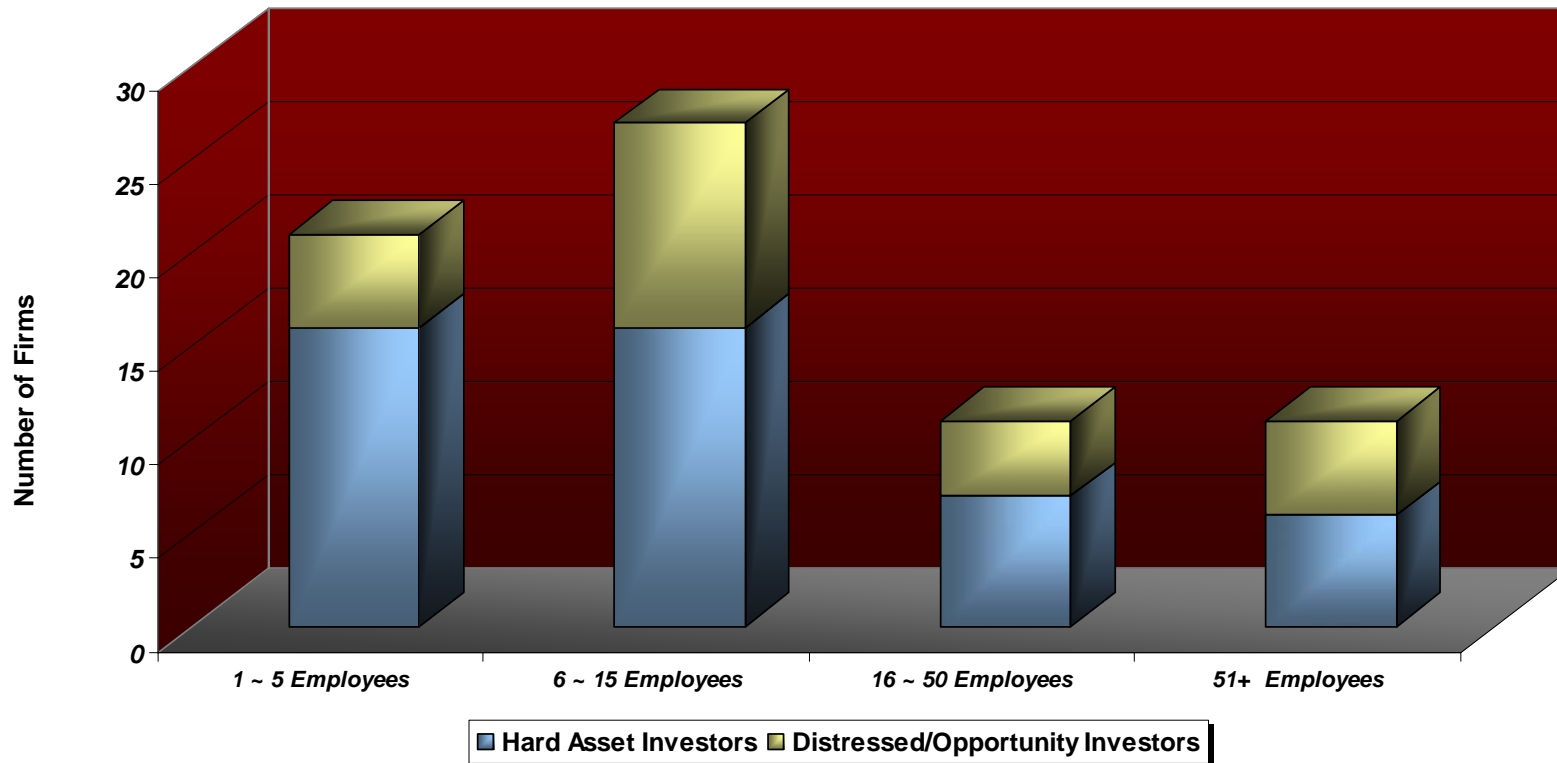


■ Hard Asset Investors ■ Distressed/Opportunity Investors

How many people are currently hired at foreign capital firms and what is the breakdown?

Our research indicate there are approximately 2100 people currently hired by foreign capital real estate firms in Japan (we count 2060) – excluding lenders. This number does not include those employees hired at operating companies owned by investors such as hotels, golf courses, etc. While some of the larger and more established investors have opted to staff up in large numbers and have set up a local infrastructure to handle asset management, operations and back office functions, the majority of investment firms have limited their employee numbers in Japan to 1-15 employees.

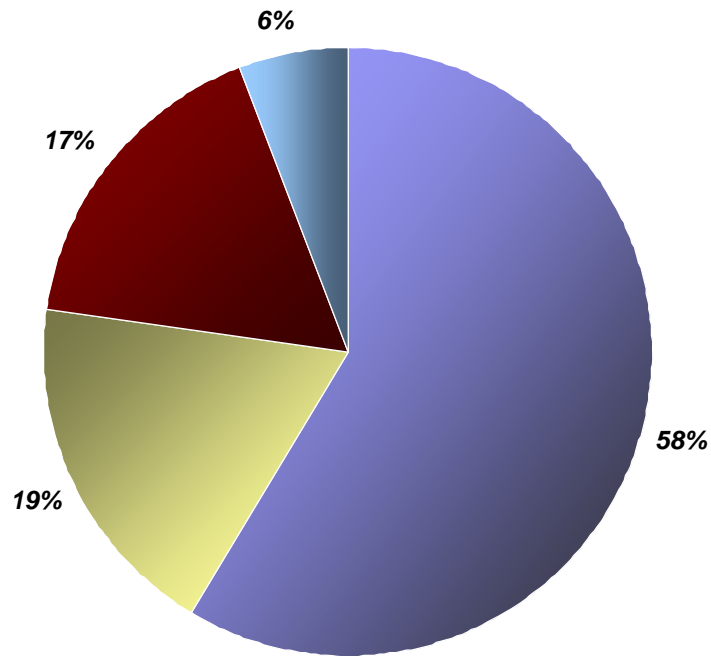
Figure 3



Where are they from?

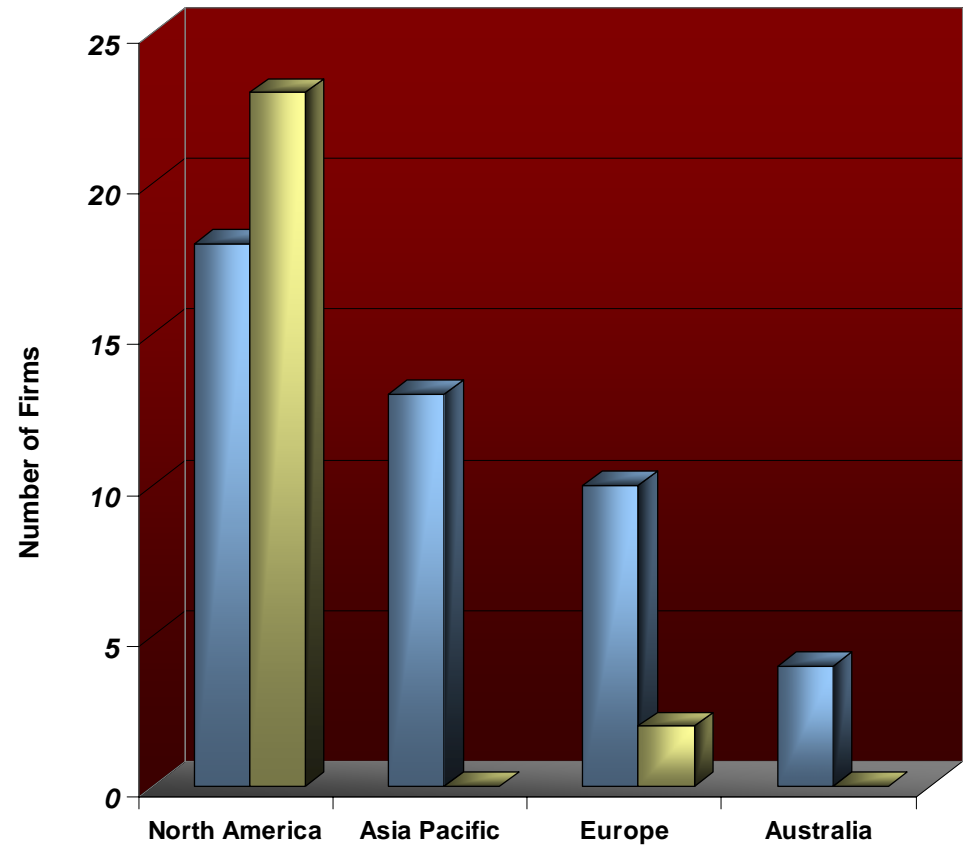
Most of the investors who have offices in Japan are from North America - approximately 58% (Figure 4). Over 90% of the opportunity investors who have come to Japan since the late 90's have been from the United States, and approximately 40% of the more traditional hard asset investors (Figure 5).

Figure 4



■ North America ■ Asia Pacific ■ Europe ■ Australia

Figure 5



■ Hard Asset Investors ■ Distressed/Opportunity Investors

During which periods have investors entered the market?

The late 1990s represented a period of distressed asset/opportunistic investment in Japan. We estimate there were roughly 20 new foreign capital investment platforms set up during the period of 1997-2000 (Figure 6). These consisted primarily of opportunity funds and proprietary investment teams set up by investment banks and other investors. In line with Japan's economic recovery, the period from 2000-2007 saw an overall increase in the number of hard asset/lower risk investors entering the market and a slight decrease in the number opportunity entrants. More recently however we have seen a resurgence of opportunity funds in the wake of the global economic crisis (Figure 7).

Figure 6

Total number of Market Entrants including both Hard Asset and Opportunity Investors

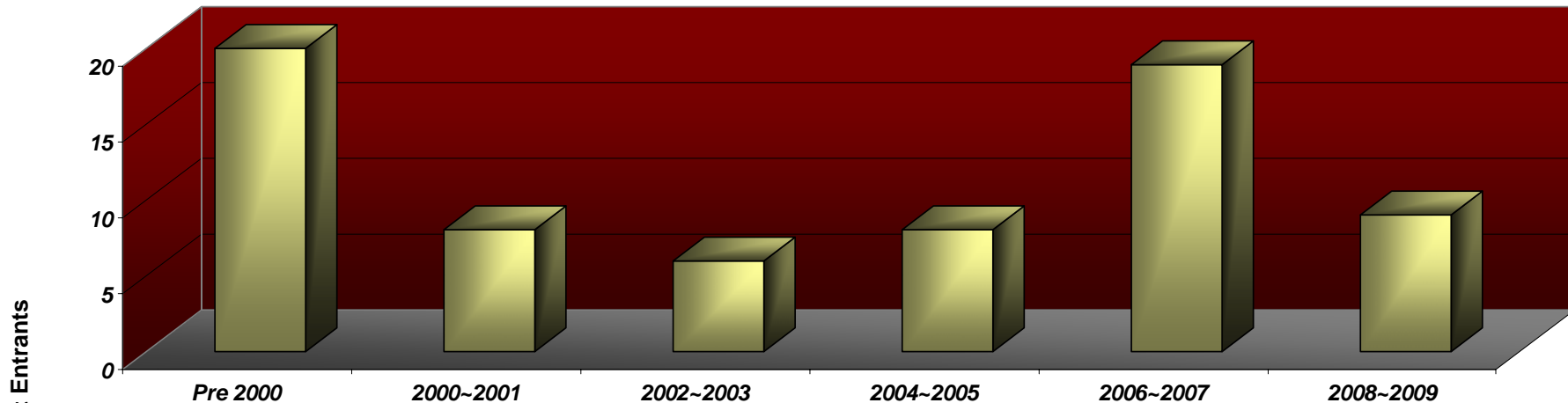
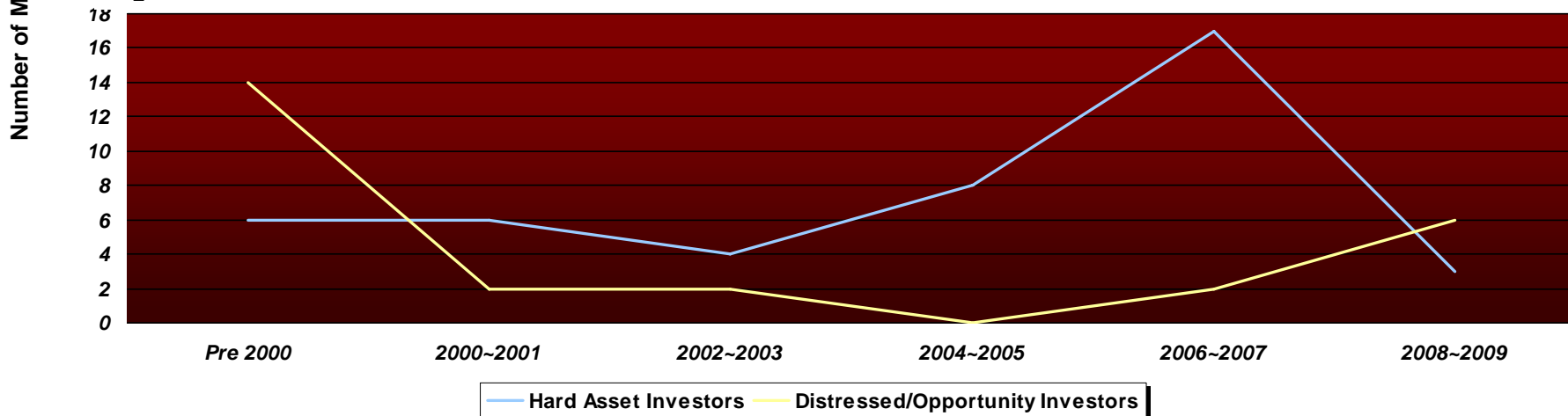


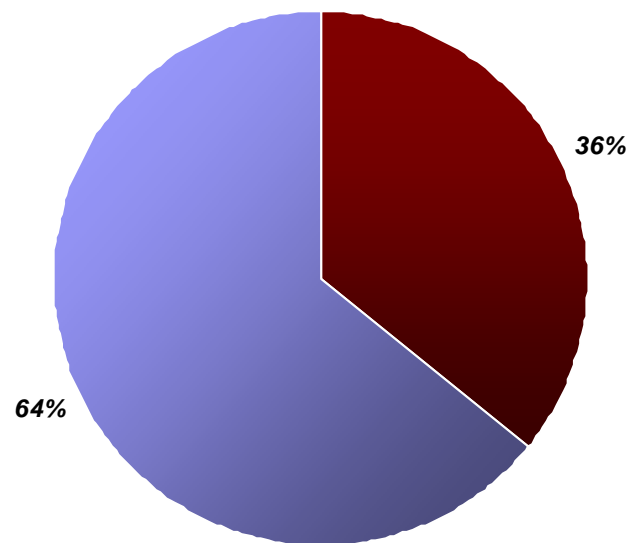
Figure 7



What trends can we see at foreign capital real estate lenders in Japan?

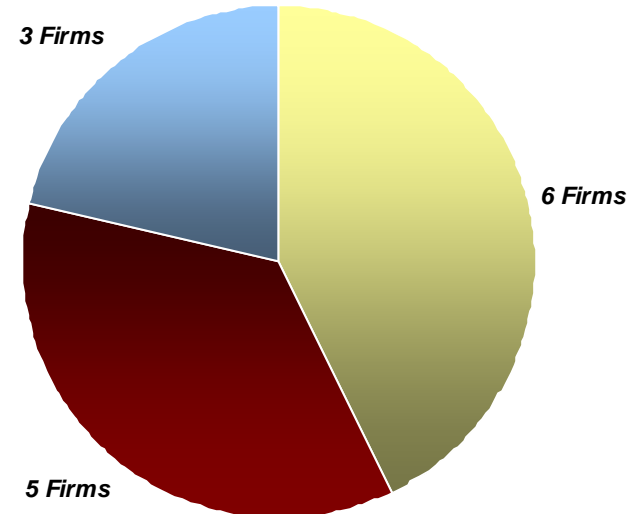
We estimate there are currently 14 foreign capital lenders with operations in Japan, all of them based out of North America and Europe (Figure 8). In terms of layoffs and restructurings, the lending teams have been hardest hit during the recent economic downturn, many of them not being in a position to extend new loans and as such have reduced staff numbers dramatically. We estimate that there are approximately 160 professionals remaining at the foreign capital lenders in Japan compared with over 300 in 2007. The vast majority of lenders remaining in the market employ less than 16 people (Figure 9).

Figure 8



■ North America ■ Europe

Figure 9



■ 0 ~ 5 Employees ■ 6 ~ 15 Employees ■ 16 ~ 50 Employees

How has the economic downturn affected hiring?

It comes as no surprise that hiring in Japan in the real estate sector has been severely impacted by the crisis. Many of the investors and virtually every foreign lender in the market has been forced into staff restructurings to some degree.

Of the 75 property investors in Japan, we estimate that 45% of them have gone through at least one wave of staff restructuring in the past 12 months leaving many real estate professionals with limited prospects of being hired elsewhere. Many who have been restructured have found positions with Japanese firms.

Although there seems to be slight signs of recovery and select hiring for key roles, the recruitment market still remains relatively stagnant in this sector. Firms which are looking to hire are extremely selective and are no longer prepared to offer the same packages they were willing to offer in previous years. Hiring activity is often viewed as a market barometer, so the general lack of commitment in this area tells us that market confidence is still at a low.

Finally, while the perception that there is now a greater pool of candidates in the market for hiring managers to choose from has some merit, many of the professionals we are in touch with who have been part of a restructuring have managed to secure new roles. Those who have survived layoffs are reluctant to move. In short, the pool of quality talent is not as plentiful as most would like to believe and identifying the right candidate still often remains challenging.

What are investors saying about timing?

The majority of investment managers we have spoken with generally share the same sentiment regarding pricing and timing – “there are very attractive investment opportunities and the market is near bottom but we will see further corrections in pricing and more opportunities to buy around the end of 2009 - first half of 2010”. Government support to banks and an increased willingness by banks to roll over loans is a key factor contributing to the price gap between buyers and sellers. Given this, most investors seem content to manage their existing portfolios with the expectation that prices will continue to drop further by year end. Most investors we have spoken to believe that downward pressure on rental income will eventually be reflected in cap rates - this has already been the case in the US and the UK. Japan is still to make further corrections.

Although there have been some significant NPL deals done in the market recently, funds looking to capitalize on NPL and other distressed asset investments are not expecting to realize many investment opportunities for another 6 months. Most fund managers feel there is still not sufficient pressure on banks to unload their distressed loan portfolios so for the larger funds and more established funds, the issue is not capital, it's more a factor of product availability and pricing. Some funds we spoke with are currently in the process of raising global and Japan dedicated credit funds to pursue opportunities in anticipation of increased investment opportunities specifically in the distressed loan product area.

The recent stock market rally may also have impacted pricing in the short term to some extent. One investor commented: “Irrespective of many market fundamentals remaining poor (increased vacancies and dropping rental prices) the recent stock market rally may have only served to increase sellers pricing expectations. This, in addition to the banks willingness to roll over a lot of the loans coming to maturity has put less pressure on sellers to sell at attractive prices”.