About the Study Group on Real Estate Investment Market

Land Policy Division, Land and Water Bureau,
Ministry of Land, Infrastructure, Transport and Tourism

The expansion of the real estate investment market contributes to the formation of high quality urban stock and the utilization of idle real estate, bringing about the effective use of real estate. Also, it is important that long-term, stable funds such as domestic and overseas pension funds, sovereign wealth funds (SWFs) and personal assets be invested in the real estate market in order to maintain and form high quality real estate stock over the long term.

The real estate investment market in Japan has been expanding rapidly to date, and the cumulative total of the real estate securitization had reached approximately 42 trillion yen by the 2007 fiscal year. However, as a result of the turbulence in capital markets worldwide since the latter half of 2007 caused by the unfolding of the subprime loan problem, the Tokyo Stock Exchange REIT Index has undergone a continued decline in the J-REIT market, and there have been no new listings of investment corporations this year. In particular, since the failures of major U.S. investment banks in September this year, the Tokyo Stock Exchange REIT Index has fallen sharply, and one investment corporation has gone bankrupt owing to difficulties with refinancing. These illustrate the fact that the Japanese real estate investment market is facing an unprecedentedly difficult situation.

The contraction of investment by foreign investors and the contraction of loans by financial institutions are frequently cited as one of the factors that lie behind these market trends. It cannot be denied that our real estate investment market is still in the process of developing in terms of size and systems, and thus in some respects is susceptible to short-term movements of cash.

In this situation, the Ministry of Land, Infrastructure, Transport and Tourism recognized it most important to attract long-term and stable investment for the sustainable growth of the real estate investment market. Accordingly, the ministry decided to convene Study Group on Real Estate Investment Market, in order to utilize the outcomes to policymaking centered on the development of transparent and fair market environment in which investors can invest with peace of mind. This Study Group (Please see the separate paper) is composed of academics and others who have profound knowledge of the real estate investment market in Japan, headed by Professor Shunichi Maekawa of Meikai University. It has reviewed the socioeconomic significance and effects of the expansion of investment in

Japanese real estate investment market, and deliberated measures to attract a long-term and stable inflow of funds into the market, both from within Japan and from overseas.

Currently, based primarily upon the "Comprehensive Immediate Policy Package—Easing Public Anxiety," which was finalized by the government and ruling parties on August 29 this year, the Ministry of Land, Infrastructure, Transport and Tourism has been promoting measures such as establishing databases on real estate markets, studying the enhancement of the real estate appraisal system, promoting the securitization of real estate in provincial areas, and conveying information and conducting investment campaigns both domestically and overseas, with the aim of attracting greater investment into the real estate investment market. Taking into consideration the valuable opinions presented by academics and businesspersons in this Study Group, we will make efforts, aiming at ensuring the sustainable growth of the Japanese real estate investment market, including the expansion of information on the market provided in English and the rapid implementation of measures to promote real estate securitization and marketability for the purpose of infusing regional areas with vitality.

November 2008

List of Members (Titles Omitted)

Chairman	Shunichi Maekawa, Professor, Faculty of Real Estate Sciences, Meikai University
Members	Atsuo Akai, Managing Director, Securitized Products Group, Morgan Stanley Japan Securities Co., Ltd. (Visiting Professor, Center for International Real Estate Research, Waseda University)
	Koji Karato, Associate Professor, Faculty of Economics, University of Toyama
	Chihiro Shimizu, Associate Professor, International School of Economics and Business Administration, Reitaku University
	Kaoru Hosono, Professor, Faculty of Economics, Gakushuin University
	Fukuju Yamazaki, Professor, Faculty of Economics, Sophia University
	Jiro Yoshida, Lecturer, Graduate School of Economics, The University of Tokyo

I. Chairman's Summary

Shunichi Maekawa
Professor, Faculty of Real Estate Science, Meikai University

1. Introduction

The Study Group on Real Estate Investment Market has been convened eight times and received lectures from the total of 17 committee members and other lecturers. The objective of the Committee was to study measures for the long-term and stable inflow of funds, both from within Japan and from overseas, into the Japanese real estate investment market, by ordering the socioeconomic significance and impact of increase in investment in Japanese real estate investment market. The proceedings of these meetings are classified under the following four themes.

(1) The current status and general issues of the real estate investment market
(2) The desirable real estate information
(3) The increase of real estate value, real estate investment and urban policy
(4) The economic impact of the real estate investment market

The content of the lectures was highly varied, elucidating subjects such as, issues concerning the real estate investment market, issues with regard to information disclosure, and the economic impact of the development of the real estate investment market, which made the meetings very meaningful. I introduce the summary of individual research report by theme below.

2. Report Summaries by Theme

(1) The current status and general issues of the real estate investment market

On the theme "The current status and general issues of the real estate investment market," reports were made by (in order of speaking): Atsuo Akai, Committee member and Managing Director, Securitized Products Group, Morgan Stanley Japan Securities Co., Ltd.; Hidenao Miyajima, Professor, Bussiness Breakthrough Graduate School; and Fred Schmidt, President, Morgan Stanley Capital K.K.

Akai described securitization as fulfilling an important credit-creation function by separating real estate and other asset risk from risk arising in the course of corporate activity. He proposed that, in order to energize regional real estate investment markets, the securitization-based asset finance mechanisms that have resulted from innovation hitherto by central financial institutions be introduced. On the other hand, he asserted that analysis has shown that because in Japan there is a gap between qualified institutional investors under the Financial Instruments and Exchange Act and qualified institutional investors under taxation law, there is thus a systemic risk that the intrinsically stable, long-term institutional investors' funds required for real estate and housing loans will, through securitization, in contrast fall under the sway of short-term funds. In view of this, for the long-term, stable development of the real estate market the bringing-in of long-term funds from domestic and external sources is an important issue, and there is an urgent need to create, through government-private sector cooperation, a real estate investment market that is able to substitute for the functions hitherto undertaken by governmental financial institutions in regard to measures such as the provision of long-term finance for urban renewal and infrastructure development.

Miyajima warned that the impact of factors such as the failure of Lehman Brothers and injection of funds into AIG had been to make the management of medium-scale Japanese real estate companies very difficult, and that the negative wealth effect in the United States (business conditions will not rebound, no matter how much interest rates fall) may continue, and suggested that major hedge funds in Hong Kong and the U.S. and sovereign wealth funds are focusing attention on Japanese real estate and are studying a full-scale shift of funds to Japan on the basis of a long-term investment stance. He proposed that such approach be fostered by means of the stepping-up of the supply of information by the Japanese government.

Schmidt stated that recent market movements were unprecedented, and that although the injection of some 70 trillion yen of public funds in the U.S. is essential, it is impossible to see how much real estate asset values have in fact deteriorated in the present circumstances. In view of this he suggested the possibility that regional banks will fail, that there will be an impact on employment, and that there will be fire sales[1] as a result of the deterioration of consumption in the United States. He also referred to the collapse of the investment bank business model of borrowing short-term funds from the market, processing them and selling financial products, and added that there would be no providers of funds to hedge funds and private equity funds.

(2) The desirable form of real estate information

[1] The sale, at sacrificial prices, of items that remain after a fire. Debtors that have acquired assets by means of borrowing are unable to repay the loans owing to the fall in value of the assets, so under bank direction the items are sold off at low prices through auctions, etc., leading to still further deterioration in the value of the assets.

On the second theme, "The desirable form of real estate information," reports were made by the following eight speakers (in order of speaking): Study Group Chairman Shunichi Maekawa, Professor, Faculty of Real Estate Science, Meikai University; Chihiro Shimizu, Study Group member and Associate Professor, Faculty of Economics, Reitaku University; Tomoo Ohi, Regional Development, Bloomberg L.P.; ,Kimihiko Matsuno, Director, Markit Group Ltd.; Steve Norrell, Senior Vice President, Capital Servicing Co., Ltd.; Takenari Yamamoto, Managing Director, Structured Finance Ratings, Standard & Poor's; Arjun Pandit, Vice President, Morgan Stanley Japan Securities Co., Ltd.; and Jiro Yoshida, Committee member and Lecturer, Graduate School of Economics, University of Tokyo.

Maekawa stated that appraisals are expected to indicate the current modal values of transaction prices, but there is considerable doubt as to whether what can be indicated by appraisals can in fact be described as modal values. The role of appraisers is not fostering transactions at market prices that are modal values, but to verify that those transactions are not disadvantageous to shareholders. He warned that appraisals simply express what modal values appear to be within a certain range, and even if it is assumed that they are able to show modal values, they do not show the configuration of the market if they are unable to show variances, and under circumstances in which institutions such as J-REITs require the valuations of appraisers and other third parties, and have to execute transactions at those appraised values, they constitute a kind of price regulation in the real estate market.

Shimizu pointed out that the opacity of real estate market information in Japan is not the question of the quantity of information but of its quality, and that the ability to analyze information necessary for risk management is important, and that there is an urgent need to train experts to carry that out. He also explained that if quality-related information, for example concerning earthquake-proofing, asbestos, and soil pollution, and information relating to the income and cost arising on real estate, is not accurate, there would be variation of appraisal values when determining prices of investment real estate using the DCF[2] method. He then pointed out the need to ensure that information is made public in a form that consumers and other users find easy to understand, and evaluated that the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) and other agencies have been making progress in addressing and improving the information flow. Nevertheless, he

[2] An abbreviation for discounted cash flow. Companies (businesses, projects, etc.) estimate free cash flow that will be generated in the future, and calculate its present value by discounting the flow at a certain rate. It is used when assessing enterprise value or valuing project investment and other investment outcomes. In the business of assessing enterprise value the DCF method has been used since the late 1980s to identify value, including of future plans, and in real estate appraisal the DCF method was adopted formally with the revision of the Real Estate Appraisal Standards in 2002.

pointed out that the nature of the improvements have not been recognized, and suggested the necessity for measures to make them widely known in the market. In addition, he asserted that, from a monetary policy perspective, it would also play a very important role to develop information on not only asking rents but also contracted rents.

Ohi stated that, for promoting overseas investment into Japanese real estate, it is important to enhance transparency through the online disclosure of loan and property data, and improve possibilities for verification and comparison. He proposed the creation of a database in Japan like the ACRIS[3] system in the U.S., which enables anyone to search information on transfers of real estate ownership and selling prices. He also pointed out that although information disclosure on by J-REITs is very advanced there is no information transparency in Japanese private real estate funds, as they do not disclose data on assets held as collateral.

Matsuno stated that for overseas investors' funds to be introduced into the domestic real estate investment market it is realistic to promote indirect investment by means of securitization. He pointed out that in Japan, the means of obtaining objective real estate transaction prices and cap rates[4], which are important in the field of CMBS[5], are restrictive, that objective information—other than rating agency information—necessary for making investment decisions is grossly inadequate, and that nondisclosure agreements are entered into at primary level, making information disclosure extremely difficult in the secondary market. In view of this, he proposed that, to encourage participation by overseas investors in Japanese real estate investment market there is a pressing need to establish uniform transaction formats and to improve the standard of information in English.

---

[3] In the U.S., it is obligatory to disclose contracted and transaction prices of all real estate transactions. The ACRIS system can be consulted by anyone to find data not only on commercial investment properties but on all real estate investment.
[4] An abbreviation for capitalization rate. It is a rate calculated by dividing a property's operating income before deducting interest and depreciation (NOI) by its price. It constitutes the yield that institutional investors expect from real estate investment.
[5] An abbreviation for commercial mortgage-backed securities. A type of asset-backed security (ABS), they are securities backed by loans for commercial real estate such as rental condominiums, office buildings, and warehouses. Special-purpose companies (SPCs) purchase the loan and issue CMBS on security of this.

Norrell pointed out that Japan lagged behind in the standardization of reports in the CMBS market, and asserted that there is an urgent need for the formulation of an IRP[6] for Japan. On the other hand, he pointed out that privacy protection laws in Japan act as an obstacle to the formulation of IRPs, and important considerations are whether or not it is possible to gain the cooperation of market participants, and whether or not there is the will to observe the IRPs that are produced. In addition he commented that, depending on the situation, government assistance may be necessary, and suggested government intervention.

Yamamoto explained that in the Unites States, the CMBS industry associations and a number of associations related to the real estate market provide a variety of information concerning real estate: that there are numerous information vendors that provide pricing tools and also provide high-value-added analytical tools; that extensive official administrative information is available, making it possible to obtain regional population trends, information on retail sales by region and by industry, and the employment situation and wage levels on a regional and industry basis; that there are numerous indexes, such as the CMBS index and indexes based on appraised prices, transactions prices and rentals, and that index transactions are also possible.

He also pointed out, however, that information from Japanese information vendors is remarkably limited with regard to residential, warehouse, and commercial properties, and that it is still in the development stage as regards indexes.

Pandit pointed out that in some cases cash flow information merely sets out estimates colored by subjective judgements made by appraisers, making comparisons between J-REITs problematic: that the impact of privacy protection laws has been to prevent rental information for individual properties from being disclosed clearly in Japan; that information disclosure with regard to hotels and retail facilities has low transparency, compared with that for office properties; that property transaction prices are known

[6] An abbreviation for investor reporting package. The Commercial Mortgage Securities Association (CMSA) has established the IRP, a complete set of information concerning bonds, loans, and properties relating to the securitization of commercial mortgage-backed securities (CMBS), as the reporting standard for the CMBS industry. In the U.S., CMBS play a major role linking the real estate and financial markets, and the introduction of the IRP has contributed to the expansion of the CMBS market. In addition, in Europe the introduction of the IRP has fostered standardization, leading to the invigoration of the arrangement of CMBS that combine real estate across national borders. In Japan the standardization sub-committee of the CMSA Japan is studying U.S. versions of IRPs and is proceeding to adapt them to market needs in Japan.

only to the parties involved; that the reliability of information purveyed by information vendors is low; and that there is little information on provincial areas such as Kobe, Fukuoka, and Sapporo. In addition, he asserted that what foreign investors want to know is that Japan's attitude to make ongoing advances and palpable progress in the realm of information disclosure, but added the harsh observation that no visible progress has yet been made in Japan.

Yoshida asserted that there is bias in Japan with regard to obtainable and usable real estate information. He pointed out that almost all price indices are based on appraisals, that there is little information in English, that obtainable information on rents is restricted to asking rents, and Japan-related information for overseas investors is very limited, biased to that on Tokyo and that on supply-side information. He consequently advocated the necessity of enhancing information in English, regional information, demand-side information, transaction price information and information on signed rents. With regard to methods of providing information he proposed greater and better availability of Web-based information in downloadable formats. He also explained that it was difficult for U.S. information vendors to obtain cap rate and price information, obliging them to make great effort with ingenuity to gather information.

(3) The increase of real estate value, real estate investment and urban policy

On the third theme, that of "The increase of real estate value, real estate investment, and urban policy," the following four speakers (in order of speaking) delivered reports: Fukuju Yamazaki, Committee member and Professor, Faculty of Economics, Sophia University; Keiichi Takeuchi, General Manager, Real Estate Consulting & Advisory Business Headquarters Investment Advisory Division, XYMAX Corporation; Koji Karato, Committee member and Associate Professor, University of Toyama; and Tatsuya Onishi, Director, Department for Regional Development, Development Bank of Japan.

With regard to the current situation of condominium and office development and problems affecting the living environment, Yamazaki pointed out that there is an increasingly low likelihood of forecasting legal punishments and resolutions, owing to the rigidity of regulations and the mixture of civil standards and official administrative standards relating to construction activity. He also pointed out that regulations on usage, on ratios of building sizes to lot sizes and on heights, permit inefficient land usage, which resulted in that good living environments are not being protected, and that even if land prices fall when development plans are announced, the option to sell a residence and move to another one is eliminated. He proposed that for condominium and office development, land-use regulations be abolished and a put-option system be introduced. Specifically, his proposal calls for the following process: the total abolition, in principle, of all regulations for the purpose of adjusting rights or limiting development, such as restrictions on usage areas, on ratios of building sizes to lots and on heights; the granting to neighboring residents of put options[7] for their real estate holdings at an exercise price during an exercise period; the imposition of an obligation on the developers to accept the exercise of those options; the granting, to residents who exercise rights, of the right to buy back their sold assets at the market prices prevailing at the time they exercised their rights and the bearing by the developer of relocation costs. He underlined this by considering practical examples: (i) even if plans for high-rise buildings are formulated for areas assessed as being a low-rise residential areas, if there is a high likelihood of put options being exercised, the appearance of the district could be preserved by the abandonment of the development by the developer; and (ii) in places where commercial land use is dominant, such as city centers, the possibility of exercising put options is low, and the development of high-rise buildings is encouraged.

Takeuchi pointed out that real estate value is derived from earnings, but although rent constitutes the largest component of earnings, the analysis of tenant rent has been inadequate. He called attention to the inadequacy of analysis of factors attributable to former owners and of factors arising from fluctuations in the leasing market, also pointing out the risk of inadequate understanding of legality, environmental risk, and over-optimistic assumptions regarding buyers' capex[8] and repair costs, citing cases in which the cost of renewing equipment that has exceeded its useful life has been totally ignored, and cases in which the cost of renewals necessary for enhancing real estate value has not been anticipated. He also stated that in CRE today, risk visualization is not possible and thus CRE is not functioning, and emphasized that it is essential for companies to gather all information and collate it into a single package.

Karato used a model to demonstrate what impact the relaxation of regulations governing the ratios of building size to lot size would have on the market. He explained that if the ratio 1,000 is abolished, it would be possible to build up to 161, meaning that the rate of change would be a 16.1% increase in area, and wage rates and total land rents would rise, as would public welfare. Using actual data from Tokyo, in the model he doubled all regulated levels in Chiyoda ward and calculated the degree to which value added would change one year after deregulation, measuring how rent expenditure would

[7] The right to sell a certain financial product by some fixed date in the future at a specified price (exercise price) determined in advance. It offers insurance against the risk of the decline in value of the product held.

[8] Capital expenditure: the amount expended for plant and equipment investment. It is an expense for enhancing real estate value and prolonging its useful life, and is stated as an asset and subjected to depreciation.

change as a result of deregulation. He found that wages would increase and there would be an aggregate surplus of 649.2 billion yen (approximately 51 trillion yen over the one-year period for the 23 central wards of Tokyo as a whole when applied pro rata based on numbers of people in employment), representing an impact of approximately 1.27%. He also found that the easing of the regulations governing the ratios of building size to lot size would have a very large impact not only on urban real estate but also the labor market. The mechanism by which the easing of these regulations has the effect of raising productivity is that their easing in districts in which they are binding brings latent demand for floor space to the fore, with the result that the marginal productivity of labor rises, labor demand and wages rise in the districts, the release of workers in other districts is stimulated, the number of workers increases in the districts where the supply of floor space is rising, the number of workers in other districts falls, equilibrium is achieved at new wages, and overall urban productivity also increases.

Onishi defined the activation of idle real estate in the real estate investment market as the action to be taken prior to securitization. As one method, he gave as an example *yamori* (property management) business, which has been conducted in Japan since Edo Era and entails converting and regenerating dilapidated real estate. Specific experiments were described, including the bundling of empty premises within walking distance of each other, and managing them as if they formed a single building, the changing of premises' use through interior and exterior renovation (conversion) to carve out new markets, and the changing of target from companies to SOHOs. The three stages in the success of *yamori* business were described as follows. The first stage involves reviving empty buildings, filling vacant rooms, and generating an income flow to the property owners, thereby stabilizing the building management (Prevention of further hollowing-out). The second stage involves reviving vigor into local life and molding incoming tenants into a community and revitalizing the "area" including neighboring outlets such as eating and drinking establishments (Enhancement of the value of the area). The third stage involves the revival of local industries (the economy), the final goal being to induce tenants with new cultural backgrounds to mingle and cooperate with the existing traditional industries and community, thereby invigorating "industry" (Creation of new industries).

(4) The economic impact of the real estate investment market

Two speakers delivered reports on the fourth theme, "The economic impact of the real estate investment market": (in order of speaking) Kaoru Hosono, Committee member and Professor, Faculty of Economics, Gakushuin University; and Katsutoshi Takehana, Analyst, Nomura Research Institute, Ltd.

Hosono demonstrated, by using a macroeconomic model, that the flow of funds to the real estate industry in the 1990s—the lost decade—was quite distorted, also pointing out that the distorted nature of financing activities by banks during the 1990s hampered the market mechanism, which by nature encourages positive aspects and diminishes negative aspects of the economy as a whole. He pointed out, however, that coming into the 2000s the recovery of soundness by the banks led to the focusing of funds on land with high productivity, while land with low productivity has been subjected to restructuring and redevelopment, with the result that the productivity of land and the productivity of the economy as a whole have increased. In addition he made a trial calculation, based on the model, with regard to what macroeconomic impact securitization in the capital markets has. Based on this he disclosed estimated results indicating that the output of the real estate industry would be up by 0.6% and that land productivity, land rentals, and land prices would rise by 0.8%, assuming that securitization enables funds procurement to be separated completely from balance sheets in the real estate industry, having effects such as an increase in investment by firms with high productivity, and the invigoration of entries and withdrawals by firms. However, it must be noted that this is an estimate of the long-term effects, excluding short-term fluctuations, and that fund-raising costs are trial calculations based on certain assumptions.

Takehana made estimates, in the form of an analysis of its current status, of the size of the real estate investment market as part of the substantial economy resulting from the flow of funds into it. At present it is estimated that approximately 40 trillion yen will flow into real estate, and with an investment return (cap rate) of 8% (3% spread and 5% borrowing interest rate at time of structuring), arranger fee of 3% and debt investor spread of 2% as player fees, he made a trial calculation that the current size of the real estate investment market is approximately 2 trillion yen. This equates to 5.2% of the 38 trillion yen size of the financial, securities, and insurance markets. He estimated the direct ripple effect on the economy at 6 trillion yen, based on the assumptions that real estate for investment and the real estate investment market would expand in parallel and that the scale of the flow of funds into real estate in Japan would expand to the same degree as in the U.S. (35%) relative to GDP. Additionally, as a result of making estimates of the ripple effect on the economy based on an input-output table, he estimated that the ripple effect on production—comprising the direct effect and primary and secondary ripple effects—to be 12 trillion yen, with induced employment for 750,000 people. He presented estimation results showing that a 12 trillion yen ripple effect on the economy through the expansion of the real estate investment market is expected to be four times that of the 3 trillion yen ripple effect on the economy of the Tokyo Olympics in 2016 and seven times that of the 1.8 trillion yen ripple effect on the economy by the re-expansion of Haneda Airport in Tokyo.

3. Summary of the Committee's Proceedings

(1) The current status and general issues of the real estate investment market

As a result of incidents such as the failure of Lehman Brothers and rescue efforts of the injection of public funds into AIG, the negative wealth effect in the United States may persist. There is also the possibility of the failures of U.S. regional financial institutions, of the negative impact on employment, and of the fire sales resulted from deterioration in consumption. All these factors create an uncertain outlook for the real estate investment market at present. In addition, the investment bank business model is crumbling, and the means by which hedge funds and private equity funds raise funds are narrowing.

On the other hand, major hedge funds in Hong Kong and the U.S. and sovereign wealth funds are focusing attention on Japanese real estate and are considering shifting funds to Japan based on a long-term investment stance. This presents an opportunity for central government to step up its efforts to attract funds worldwide to the Japanese real estate investment market.

The introduction of asset finance by means of securitization is diversifying the means of raising funds and is lowering costs, contributing to the expansion of volume in the real estate investment market. This leads to the concentration of funds on highly productive land and the restructure and redevelopment of land with low productivity, henceforth the invigoration of the fabric of the entire real estate industry is fostered. However, because there is a high risk that a short-term fund dominates the market, the appropriate introduction of long-term funds from within Japan and overseas is necessary.

On the other hand, in Japan there remain numerous issues to be addressed in the sphere of information disclosure. For example, the standardization of information disclosure by J-REITs is still a work in progress, and information disclosure by private real estate funds (debt asset CMBS and assets held as collateral) is lagging behind, illustrating that the information necessary for investors to make judgments on risk is limited.

In addition, in the sphere of human resource development there remains the issue of the lack of capabilities of market participants with regard to risk management and the analysis of investment information.

(2) The desirable form of real estate information

Real estate investment information in Japan is limited, and it is necessary to enhance and accumulate information, also giving attention to its quality. In addition to a lack of basic data such as data concerning the most recent rents and transaction prices, there is also a conspicuous lack of residential, warehouse, and commercial information, as well as regional information.

In addition, insufficient progress has been made with the standardization of information disclosure with regard to J-REITs and CMBS and other securitized products backed by real estate. There is an urgent need to create a uniform disclosure format.

It has also been pointed out that information vendors' investment analysis tools are deficient compared with that of overseas. This is due in part to the lack of user-friendliness of information provided by the administration. It is desirable to have easy-to-use methods for data provision, including the facility to download raw data in Excel format.

Many overseas investors point out that data in English is limited. So long as situation is not improved, the minimum infrastructure required for attracting overseas investors are not in place.

In addition, the creation and development of databases of information such as, on the appraisals, on the latest rents and on transaction prices are strongly wanted, as well as the online disclosure of those databases. There is a pressing need for the disclosure of databases that anyone can search.

(3) The increase of real estate value, real estate investment, and urban policy

The increase of real estate value is achieved by such means as the effective use or reactivation (by conversion, etc.) of properties that are underused or idle, the renovation of dilapidated properties (including simple works such as remodeling and full-scale works such as reinforcing them for earthquake resistance or changing their air-conditioning systems), and appropriate property and other types of management, including appropriate management of income from rents and investment in maintenance, repairs and renewal.

With regard to the activation of idle real estate, the Study Group has been presented with an example in the form of property conversion through which dilapidated property is revived. In addition, from the standpoint of persons engaging in investment in real estate, attention has been drawn to the necessity for the analysis of actual tenant rentals (relating to the special characteristics of tenants, and market rents); proper estimates of costs of investing in equipment updating and of costs of renewals necessary for increasing property value; and the understanding of aspects such as legality, environment risk, earthquake-proofing and soil pollution.

Urban policy such as land-use regulations not only impacts the urban environment through the allotment of land utilization, but also has a major impact on real estate values and the national economy.

At meetings of the Study Group the inefficiency of regulations on usage and on ratios of building sizes to lot sizes, and of regulations on heights has been pointed out. With regard to condominium and office development there has been a proposal for the introduction of a put-option system (under which local residents have put option to sell their real estate during an exercise period at an exercise price) to coordinate the interests of developers and local residents. This system enables external effects to be adjusted by the market, and the easing of the regulations governing the ratios of building size to lot size would increase demand for labor in the districts being developed and raise wages there, thereby boosting the productivity of the entire city. The economic impact of the easing of the regulations governing the ratios of building size to lot size has been demonstrated by the use of a metric model.

(4) The economic impact of the real estate investment market

The distortion of the flow of funds into the real estate industry in the 1990s hampered the market mechanism and distorted the real estate market. The current real estate securitization has recovered a normal funds cycle in which funds flow to places with high productivity.

In the Committee a macroeconomic model has been used to clarify how funds flows in the 1990s hampered the market mechanism, and to present an analysis of the kind of impact that securitization has had on the macro economy. Another report has presented the results of an analysis of the economic ripple effect if the size of the inflow of funds into real estate expands to the same scale as in the U.S. relative to GDP. In both reports, it has been shown that an efficient funds flow into the real estate market by such means as real estate securitization has a significant economic impact.