

Tokyo is still under urban development

Real Estate in Japan: an unexpected growth!

It is in a chic and modern multi-functional room that Francois Trausch welcomed JQR. The decor itself gives you a big hint on how the company and its CEO pay attention to its warm and human image. The Head of GE Capital Real Estate Asia isn't a new comer to Japan. Younger, he was granted a scholarship that allowed him to come to study for 10 months in Tokyo. He then fell under the charms of the country and so didn't have much trouble to convince his wife and family to come back to live here, when he was offered the position at the peak of his career in Real Estate at GE. Between two business trips, he was kind enough to share with us his views about Japan and its market.

- The first particularity of the real estate market of Tokyo is its scale. We talk about a population of 30 million inhabitants and you can't just come here hoping to grasp everything after six months. It is an extremely difficult market, but this mystery makes all its charms. You need a lot of time to understand its evolutions, its tendencies, its orientations. 15 years ago, Shinjuku was the place to go, nowadays as growth has slowed down there, people rather go to Shinagawa, near Haneda, which has become an

25 years ago"

When I came to Japan 25 years ago, it was in a completely different context, with the strong yen, the economic bubble, in an all different period. But I think that in urban terms, Tokyo is even more beautiful today than back then. There is more infrastructure, more attractive buildings, great urban projects were realized... Well, there is a big paradox between those saying that Japan has gone through 20 years of non-growth and to me, the fact that more than a few countries in the world would be very happy to go through 20 years of non-growth too, if the result is like Tokyo today!

Within this urban "jumble" that is Tokyo, some promoters like Mori with Ark Hill and Roppongi, or later with Mid-Town, have changed the way to build new buildings, with a certain attention to esthetics. We saw popping out "mixed-use" projects that combine offices, commerce and hotels, a phenomenon that was relatively new here. A good example is around Marunouchi, where 20 years ago there were solely offices, as today, streets are more attractive and it gets busy even during the weekends!

When you don't know Tokyo, you imagine high-rises, three-level

François Trausch

Asia Pacific CEO, GE Capital Real Estate

Photos / Susumu Nagao Texte / Rédaction JQR

international airport. There are still a lot of moving streams in this city that has only 50-60 years of reconstruction, compared to European cities that have more fixed landscapes, you know where to be at. So to me this is always interesting and surprising.

"Tokyo is much more beautiful than

highways, traffic, an enormous megalopolis, 30 million people, concrete everywhere and lots of pollution. For me who comes from Paris, which is well known as THE romantic and quiet city, well in reality it is extremely noisy, full of cars, and very polluted. So when you arrive to Tokyo, you see the complete opposite! It is almost like

BEFORE



AFTER



a bunch of villages linked together, the city is not polluted at all and is much more quiet than most European towns. There are indeed three-level highways, but a hundred meters away you can live in a village atmosphere with small houses. Furthermore, this traffic that is just there cannot be heard at all, so you have a very calm environment. That is Tokyo's contrast.

“Tokyo is at human scale”

My work makes me travel to China very often. What is happening over there is amazing, but towns are quite uniform, all made after the same plan. Tokyo however with its “jumble” is more at human scale to some aspects, has more diversity, richer dimensions. Compared to China, which is soaring

and has uncountable projects, here when you read the newspaper in the morning you are told that the population will greatly decrease during the next 50 years, that apartments are empty, etc. In fact, all this is not true. The paradox in Japan is that despite its inertia, there are pockets of important growth. If you can find those pockets you can do great business. Moreover, as Japan is a wide and liquid market, the cost for financing is very low. You can finance at 1% to invest in an apartment building that will give you 5%. Very few countries in the world offer 4% return-on-investment.

The reality is that Tokyo's urbanization is actually developing. That is to say, the country's decrease in population affects the rural regions badly, but to the benefits of bigger cities. The number of households in Tokyo is increasing, because of the higher number of singles, which boosts up the demand for small apartments. That is why we positioned ourselves in the studio segments in Tokyo, Osaka, Fukuoka and Nagoya.

We are also active in the mid-sized office building segment. They are usually of 5-7 stories, with 300 to 500 sq m floors. Some are no longer complying to seismic norms and their tenants (80% of companies in Tokyo are SMBs with around 20 employees) have decided to move elsewhere after the great earthquake last year. They opt for buildings with more recent structures and better energetic systems. We thus invest in high quality buildings, but that sometimes have

tired looks, so we refurbish them with more to-day tastes in order to attract this clientele.

I always insist on sustainability and new energy systems. The Government is actually ready to grant a lot of financing in this area. So we work with our tenants to change equipments and allow them to reduce their energy cost. This is a sector that is developing and Japanese people will push it significantly because when they take a decision, they really do things until completion.

The fact that we are a foreign firm doesn't really cause any problem. After 15 year of presence on the market, we have made our proofs and are now well accepted. However, there are things that we will never be allowed to do. Never will we be able to buy in Marunouchi for instance. It will always remain between Japanese companies. This phenomenon exists of course everywhere in Asia or Europe. But here the difference is that some building owners will never sell whatever happens, as for a Chinese owner, who tends to be more of a trader, will consider selling if he sees potential profit. The ownership, the sense of propriety is stronger in Japan. It is thus up to ourselves to stand in market segments with possible development.

“The language barrier is the most difficult”

The most difficult thing for me as a foreign CEO, is the language barrier.

So I let all the client relation aspect to my Japanese teams. When they ask me to join them, then it is generally when it's time to make official apologies! This is probably a Japanese thing, but it's normal, it is my role and fortunately, it doesn't happen very often! My goal is to make my teams feel trust, that I will never let them down. In Japan when you lose face, you can be pushed out of the market for several years. This relation with the client is something that I miss a little bit. But as I don't have any added-value there, I don't try to impose myself.

“Japanese love construction”

Japan has a very industrial side, would it be in automotive or construction. They must roll the machine, so they demolish to reconstruct. It is probably related to the fact that the land price is extremely high. It counts for 70% of the investment and the building itself for 30%, so it is easier to decide to demolish. But Japan loves construction. Even in not so proper economic periods. Here not all the projects can be justified financially and I am very sure that most wouldn't make it through anglo-saxon deals in terms of return-on-investment! It is a different mentality.

“I laugh alot with my Japanese teams”

Even with all my experience in team management, I think that it is much more easier here than in France. Of course, within a same company half of the codes are the same. But the second half is very different. Japanese don't hesitate to use more humour and I laugh more here than in Paris! Real estate attracts people that don't necessarily fit into the mould, who don't come from the same university, and we recruit young people with English-speaking skills or women of talent who would have difficulty to continue their careers in other firms because it is traditionally a men's field.

“The Japanese real estate market lacks of transparency”

I am always amazed that in such an elaborated market it is so difficult to obtain information. You buy a building in Canada, you know at which price were sold the 10 buildings around, who the tenants are, how much the



“here”

rent is, etc. In Japan this is extremely difficult to know. You have to make a lot of efforts to get this type of information, which is always asked by North-American investors because they are used to have that kind of data in hand. This sophisticated market is not as transparent as you would think it should be. On another point of view, this aspect is protecting us from new comers. One cannot arrive one day from Paris or New York, and buy a building right away.

“My teenagers can have a taste of liberty... within borders”

Another aspect that is incredible in Tokyo, is the transportation system. Living here is a marvelous experience for my two children of 14 and 16. They can have a taste of the liberty of teenagers, within well guarded structures. They can move around town using public transportation without any criminality risks. Back in Paris I would have never let my 12 year old son take the subway to go to the Champs-Elysee. In other cities, you have to use a car, so children are always depending on their parents.

“We forget that design was invented

One of the sides of Japan that are not enough shown to the world is this all new generation of young entrepreneurs that are really creative and put up with very innovative business concepts. As Steve Jobs was saying when he'd go to Kyoto to find inspiration, “design was born here.” We too often forget this fact, which brings to me a lot of optimism for Japan.

PROFILE

François Trausch is the Asia Pacific CEO of GE Capital Real Estate and concurrently President of GE Capital Real Estate Japan, based in Tokyo since two years ago. He previously was CEO Western Europe for the same firm in France, after being active in the industry for several years in Germany and the US.

