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Investing in Japanese Real Estate:

Links to International Trade

By Dr. M.A. Hines, SCV, RIM

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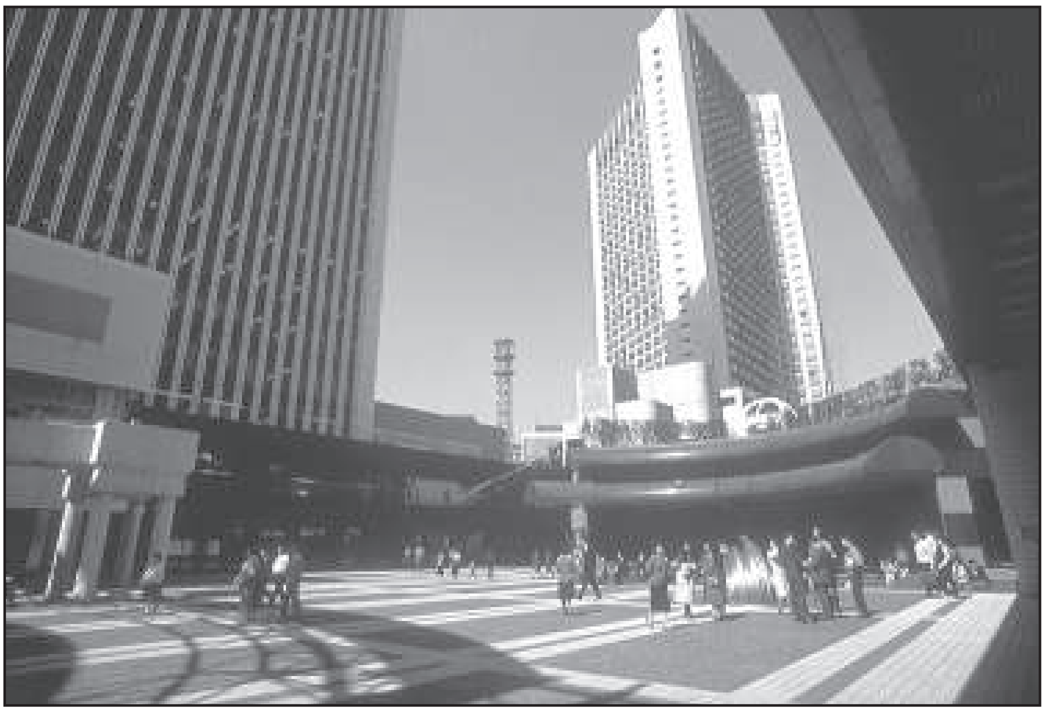

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About the Author

The manuscript, “Investing in Japanese Real Estate Links to International Trade,” is based on many business-research trips to Japan in recent years. Information from leading Japanese real estate companies, financial institutions, and trading companies as well as many government agencies related to international trade and real estate have provided the basis for this manuscript and other major publications. The book, JAPAN REAL ESTATE INVESTMENT, will be distributed by Quorum Books of Westport, Connecticut in February, 2001. The book, INVESTING IN JAPANESE REAL ESTATE, was published in 1987 by Quorum Books. JAPANESE SHOPPING CENTERS: FINANCIAL AND INVESTMENT FEATURES, to which Mr. Ikunoshin Yoshida also contributed, was published by the International Real Estate Institute in 1985. The authors book, SHOPPING CENTER DEVELOPMENT AND INVESTMENT, was published in the Japanese language by the major Japanese publishing house, Toyo Keizai Shimpo Sha. A major Tokyo-based bank sponsored the use of the book by the Japanese real estate community in the early stage of the Japanese shopping center development era. The International Real Estate Institute has also published Dr. Hines’ MOROCCAN REAL ESTATE: NORTH AFRICAN PROPERTY, BRAZILIAN REAL ESTATE, AN OVERVIEW OF GLOBAL REAL ESTATE FINANCE, and INTERNATIONAL INCOME PROPERTY INVESTMENT.

Dr. Hines, the Clarence W. King Endowed Professor of Real Estate and Finance at the School of Business of Washburn University of Topeka, Kansas, is the author of four major real estate textbooks as well as 37 other international- and U.S.-oriented books and monographs. She has also had published 112 international- and U.S.oriented academic and professional real estate articles. Dr. Hines teaches a variety of graduate and undergraduate courses in international business and real estate.

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Dr. M.A. Hines

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Japan's new economic growth encourages investment in Japan's real estate. After one of Japan's longest recessions, the central bank of Japan felt so confident of the economic turnaround in year 2000 that it raised interest rates a small amount from the earlier targeted zero government interest rate. Instead of inflation, Japan has experienced deflation through the long recession that has spanned the last half of the decade of the 1990s.

Introduction

The link between Japan's international trade and investment and Japanese real estate is acknowledged. We look briefly at the trends in Japan's international trade, its economic and political trends, the growth areas for corporate real estate, and the prospects for the future.

Japan's Place in World Trade

"Trade expansion remains the engine of growth," the Financial Times, a leading international English-language daily newspaper proclaimed in a special World Trade survey on November 29, 1999. World trade fosters world economic growth. At the same time, world economic growth fosters world trade. For these reasons, more liberalization of international trade is promoted. Some regional trade liberalization, particularly in Europe and the western hemisphere, has occurred as the eighth round of trade liberalization under the General Agreement on Tariffs and Trade led to the formation of the Word Trade Organization. Since 1950 the volume of world manufacturers' exports has steadily risen while the volume of world production of merchandise has risen at a lower rate.

In considering country participation in word trade, we may note that the European Union represents about 20 percent and the United States roughly 16 percent. Japan follows in third place with over 9 percent of total word trade. Canada runs fourth at 5 percent; China fifth, at roughly 4.5 percent; and Hong Kong sixth, at a little over 4 percent. The rest of the world accounts for a little over 40 percent of world trade. Japan's position is very significant, particularly, in light of the fact that the country has minimal natural resources to generate products and energy for its productive facilities.

***A Positive Trade Balance With Most of Its Trading Partners*.**

Japan continues to generate a positive trade balance with most of its trading partners including the United States. As an exception, Japan tends to import more from mainland China than it exports to that country. Therefore, Japan runs a negative trade balance with mainland China. But Japan exports more products to Hong Kong than it buys from Hong Kong. This leads to the typical Japanese position: a positive trade balance with Hong Kong. In contrast, the United States typically runs a negative trade balance with Hong Kong; the U.S. buys more from Hong Kong than it sells to this separate economic region of the People's Republic of China.

Due to its trading skills developed over many centuries and its scarcity of needed natural resources, Japan has engaged in trade with countries in all regions of the world. The bulk of its imported food products are derived from Asia, the South Pacific - Australia primarily - and South America. The oil and natural gas for energy for its productive facilities is derived primarily from the Middle East and Southeast Asia. Primary metals are imported from South America, the South Pacific - primarily Australia - and Africa. Manufactured goods are imported primarily from other parts of Asia, Europe, and North America.

Focus on Higher Value-Added Products.

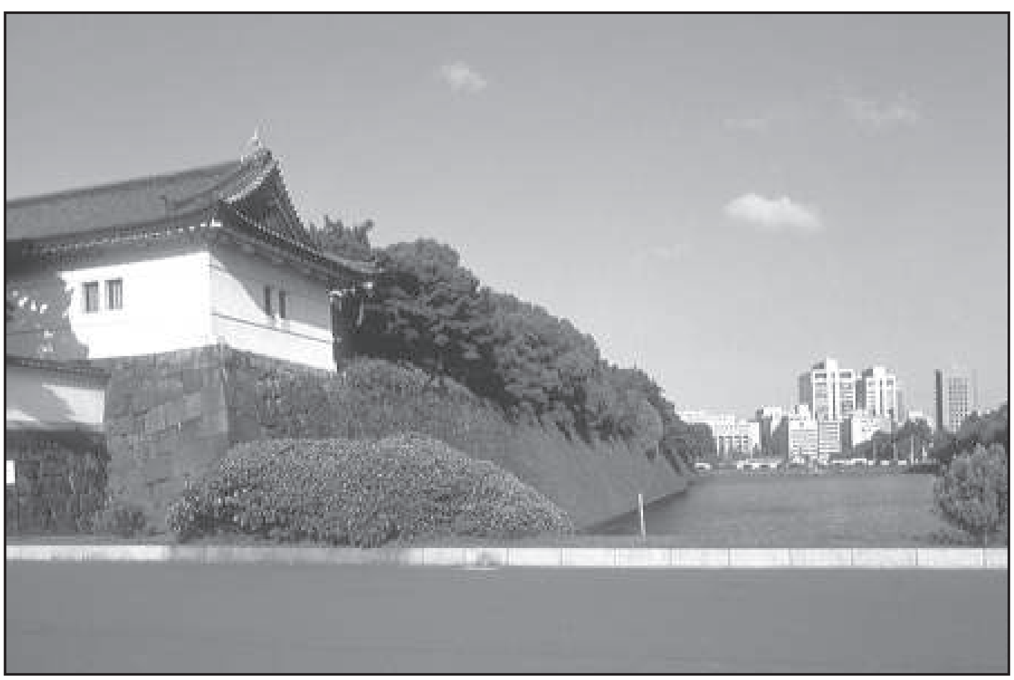
In an effort to continually raise the incomes and standard of living for its growing number of citizens, Japan deliberately reserves the manufacture of higher valueadded products for itself while it imports lower value-added products from many countries within many regions. Labor-intensive products are acquired from sources that have much lower wage scales and sources that deliver products of desired quality and quantity on a reliable contract schedule. This same national policy tends to be true of the other leading economic powers of the world. At the same time, the developing countries appreciate the business with the industrially developed countries such as Japan.

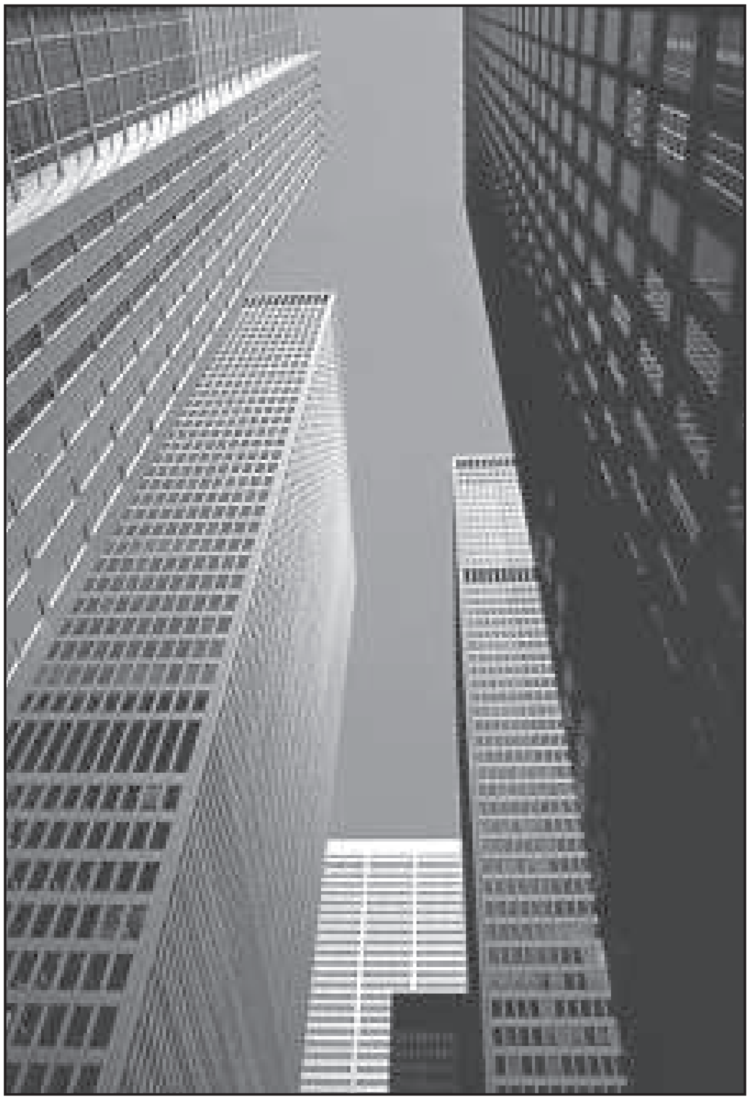
Economic Conditions and Investment Environment of Japan

Japan is rebounding from a long recession that has plagued the country during the 1990s. Business and consumer spending have hit low levels. As banks and other major lending organizations have restructured their businesses to generate adequate profitability by current standards, these lenders have raised their lending requirements and have reduced their outflows of capital for domestic and international business loans. Mergers among major lending institutions have been encouraged by the Japanese government in order to avert greater government financial support to protect the personal, business, and government depositors. The Japanese government has incurred one of the world's highest debt positions - approximately 130 percent of the Japanese Gross Domestic Product in order to engage in countercyclical infrastructure projects and to financially support bankrupt and near-bankrupt financial institutions and other businesses vital to the economy.

While the Japanese government has continued to financially support the international projects of the international and regional economic organizations, they have implemented many "pump-priming" programs to revive its economy at home. Business investment has declined measurably in the "old economy" sectors while the government has been supportive of major investment in the "new economy" sectors, including telecommunications and computer software development, that promotes new business development and existing business rejuvenation. Through the joint efforts of government and business, Japan plans within five years to exceed the U.S. in e-commerce and internet applications in telecommunications. Such government efforts promote investment and trade in all types of real property interests in Japan.

The Japanese financial industry has been in such disarray that financial institutions from the United States and other countries have made great inroads into this strategic industry of Japan. Japan's largest bank, for example - and the world's largest bank - has been declared bankrupt. The government has encouraged this bank, Daiichi Kangyo, and two other leading Japanese banks Industrial Bank of Japan and Fuji Bank - that are also bankrupt to merge into one single bank that may consolidate and streamline operations for eventual profitability for the public benefit. Approximately three years after the government nationalized the three long-term credit banks - Long Term Credit Bank, Nippon Credit Bank, and Industrial Bank of Japan - the government has transferred the ownership of two of the banks to two different Japanese-international consortia. In all three bank sale situations, the government has bought nonperforming loans and guaranteed loss limits on existing loans that may still be found in default. In this banking environment, Citigroup, one of the leading U.S. banks, has expanded its market share. Nikko Salomon Smith Barney (often abbreviated NSSB), the investment banking group that represents a joint venture between Nikko Securities Company of Japan and Salomon Smith Barney, a division of Citigroup, has captured well over half the Japanese domestic equity issuance market and the third largest market share in the domestic fixed-income market. Nomura and Daiwa rank higher in Japan in the fixed-income market. In the mergers and acquisitions sector, NSSB ranked third after Goldman Sachs and Merrill Lynch. UBS Dillon Read has attained a significant market share of Japanese investment banking as it serves the real





estate industry in its fundraising outside the banks.

Security Sales Supplement Bank Loans.

The investment environment of Japan might be considered restrained due to the cutback in lending by the Japanese banks, insurance companies, postal savings institutions, and finance companies. But financing of corporations, including real estate companies, and real estate projects has been diverted in part from the banks to the security markets. Asset-backed security offerings have found domestic and international investors ready to commit their funds. Among these asset-backed security offerings have been mortgage-backed securities; these have proved attractive investments as government treasury bond interest rates have been zero or in the immediate proximity of zero. Even though the Japanese security laws need change to create a better legal and legislative environment for marketplace transactions in mortgage-backed securities, leading real estate companies have moved ahead with successfully placed issues. The Mori Real Estate Company is an example of such an early mortgage-backed security issuer. The Mori Company joins with Mitsubishi Estate Company and Mitsui Fudosan as the leading private and public real estate companies in Japan. The Mori Company is privately held while the Mitsubishi Estate and Mitsui Fudosan companies are publicly held companies with numerous shareholders.

Increasingly Samurai corporate bonds from the U.S. and other countries are being placed with banks and other financial sources in Japan who are seeking greater yields with appropriate investment risks. For example, on September 1, 2000, Citigroup floated the largest Samurai issue in history - a total of ¥175 billion (approximately U.S. $1.6 billion) in three trenches involving ¥75 billion in two-year bonds, ¥50 billion in four-year-three-month bonds, and ¥75 billion in five-year bonds. In the year 2000 a number of large multi-national corporations, including IBM, Xerox Credit, General Motors, GE Capital, and McDonald's Corporation, have floated large Samurai bond issues in Japan. There are large amounts of savings in Japan whose owners are seeking yields higher than those found in Japan for the same amount of risk.

At the same time as foreigners are issuing Samurai bonds to attract Japanese savings, the Japanese government continues to sell Treasury bonds to finance the governments huge debt. The government is considering expanding the tax exemption for international investors who purchase the bonds. The withholding tax on the income from Japanese Treasury bonds was abolished for foreign investors in 1999. Foreign investors still complain that they face a complex system for the registration of their bond holdings with a local Japanese custodian bank. This is an obstacle particularly for overseas mutual funds.

Income-Level Perceptions and Mixed Residential Communities.

Most Japanese people surveyed on the street consider themselves "middle class." Even though this is revealed by surveys, Japan has a very wide disparity in personal and household incomes. The culture discourages the ostentatious display of wealth. As a spatial demonstration of this cultural more, residential communities reflect a mixture of household incomes. Wealthy households tend to blend in with less affluent households.

Changing Company Objectives and Employee Relations.

Japanese employees have received, in recent decades, salaries that have risen with time and employee group contribution to overall company growth more than with personal productivity and contribution to company profitability. The government-business establishment has encouraged lifetime employment with a single company and growth in global industry market share rather than company profitability. The employee's contribution to the group goals that were related to long-term company goals has been far more important than personal employee performance and contribution to company profitability. The major Japanese company has been built on group consensus and achievement rather than personal achievement. Today the Japanese government-business culture is moving slowly toward Western society's government-business culture that is focused more on individual productivity, uncertain business employment prospects over a lifetime, and company profitability. Growth in market share in this new business culture is secondary to company profitability and increase in company value for shareholder benefit.

From a long history of unemployment in the range of 2 to 2 1/2 percent, unemployment has risen above 4 percent. The government-business culture long called for lifetime employment for all able-bodied Japanese citizens who sought work outside the home. Today the need for profitable enterprises from restructured firms has led to a gradual change in the government-business culture that permits layoff of employees and promotion on the basis of performance rather than tenure of employment. Due to the recent layoffs of large numbers of employees and announcements of impending large layoffs, the citizens are growing to expect uncertainty of employment and definitely an absence of lifetime employment with a single firm.

The Diminishing Role of the Keiretsu.

Company restructuring for the regaining of profitability has diminished the role of the *keiretsu*.

With the mergers of the major banks who have long been the lead members of separate industrial *keiretsu*, these groupings of companies based on cross-shareholdings have been breaking up to some extent. As various members of each *keiretsu* have experienced financial problems, the other industrial members of each business grouping have sought to financially support their week member companies. Since many companies have financially weakened due to recessionary business conditions and due to the change in lead bank loan policies, the financially weak members have had to raise money through some means. In some instances, the other *keiretsu* members could not give the necessary financial assistance. Therefore, foreign investment in such weak companies has been welcomed. The foreign investment in *keiretsu* member companies has weakened the previous ties between the All-Japan group members. Renault of France, has bought a large portion of Nissan Auto Company stock. The foreign partners of the Ripplewood consortium have purchased the controlling equity position of major banks and are now considering purchase of equity interests in major non-life insurance companies as the Financial Restructuring Law is implemented within the insurance sector starting in 2001.

Overseas Hotel, Office, and Other Property Investment

As the recession continued through the 1990s, many Japanese investors in overseas businesses and real property have terminated their foreign involvement and have retrenched back into Japan. The annual number of bankrupt companies has set records as the new millennium opened. Many Japanese real estate companies have become bankrupt. Many other Japanese real estate companies have reduced their investment risk and their foreign involvement and have focused on Japanese domestic investment. For example, Mitsubishi Estate Company sold Rockefeller Center, New York, in 1996. Major multinational Japanese hotel owners have retrenched as their debt positions have been onerous to service. Some foreign-located Intercontinental Hotels have been sold by the Saison Group of Japan. The recession began when companies tended to have large debt positions in their capital structures. Government-business policies had encouraged the attainment of large size as Japanese companies became international business and political leaders. The recession aggravated the problem of meeting the interest payments and the principal payments as the large debt matured.

Imperiled Golf Clubs.

One of the most important indicators of the state of the Japanese economy is the profit status of Japan's golf clubs. In the June 2, 2000 issue of the The New York Times, it was reported that at least 1,700 golf courses of Japan are bankrupt or in financial distress. This contrasts with the golf club investment craze of the 1980's. Today's financial crisis at many of Japan's golf clubs is probably related to the decline in consumer spending during the recession and the many corporate announcements of impending employee layoffs with the government's approval.

Japanese Politics and International Trade and Real Estate Investment

The Liberal Democratic Party has held the reins of Japanese politics for many years. A coalition with other political parties has sometimes been necessary to retain the political clout to get certain legislation passed. Emperor Akihito and his son, the Crown Prince, are government figureheads who do not tend to enter into political affairs, much like the British royalty. At the end of Word War II, the Allied Forces terminated the all-powerful authority of the royal family as the government and the institutions of Japan were reorganized for the resurrection of the country and its economy.

International trade may take place more smoothly with a single political party in power for so many years. Political affairs of Japan tend to be stable and relatively reliable. This situation is true even though there may be dissension among the leadership of the Liberal Democratic Party. For example, the injection of a 10th tranche of government spending to bolster the economy in the fall of 2000 has prompted debate among the ruling party leadership. The Japanese political concensus generally approves of the military protection of Japan by the U.S. military establishment. In return, Japan permits the occupancy of a large U.S. military force on part of the island of Okinawa that is located to the south of the main Japanese island grouping. There is little reminder on the streets of most Japanese cities of the presence of U.S. military personnel because the U.S. military uniforms are rarely worn off the Okinawa base.

Political disputes continue between foreign governments and the Japanese government. One major area of dispute lies in the opening up of the Japanese domestic market to foreign companies. Through extended political discussions over many decades the Japanese government through some acts of legislation have opened up some lines of business in some ways to foreign competitors. There remain many areas for deliberation and negotiation as the Japanese government tends to protect its home industries from "undue competition." A few foreign land developers, retailers, manufacturers, and other businesses have entered the Japanese market - some successfully, many unsuccessfully.

Foreign Exchange Trends and Japanese International Trade

Japan has one of the world's strongest currencies. This has major implications for Japanese trade. Imports from countries with weaker currencies such as Malaysia, Thailand, and Vietnam of Southeast Asia, are less expensive. In like manner, imports from the European Union where the euro keeps declining in value are relatively less expensive to Japanese importers. The same thing is true for the imports from countries of Latin America where their currencies are not tied to the strong U.S. dollar. At the same time, importation of products is discouraged by the Japanese government in order to strengthen domestic industries and retain high levels of employment.

Exporting is more difficult when the strength of the yen is considered. The Japanese prices of products tend to be high due to the exchange rate relationships. Since the Japanese currency has been strong for some time, Japanese companies have sourced their raw materials and semi-manufactured goods from low-wage countries, primarily of Asia and South America. Some sourcing has recently been done in Eastern and Central Europe. As costs have been contained in this manner, the Japanese profit margins have been maintained while their product prices have been set on a competitive basis. The Japanese companies have also followed a policy of goods production in the countries in which the markets for the goods exist. The production cost is denominated in the same currency as the sales revenue. Exposure to loss through foreign exchange is partially averted in this manner. At the same time, national quotas and import duties applicable to the Japanese products have been bypassed. For example, most of the Japanese cars manufactured in Thailand are intended for the Thai market in the same manner as the Japanese cars manufactured in the United States are designed and produced for the U.S. market.

The Growth Areas for Corporate Real Estate in Japan

Sectors of economic growth reveal potential growth areas for corporate real estate. These business growth areas are associated with current and future corporate real estate needs. International and domestic trade are associated with the growth of these business sectors. In some instances, imported goods and services may be needed; in some instances, goods and services developed in Japan will face strong international demand. Corporate real estate must accommodate the projected changes in the Japanese business community.

Selected Areas of Business Growth in Japan

A few areas stand out as business growth areas in general: internet software development, e-commerce development, healthcare services, leisure services, and business educational services.

•Internet Software Development. The development of software for the mobile phone, cable television, and computers is a rapidly developing industry. There is a higher proportion of Japanese citizens that have adopted the cell phone than the proportions in the United States and the European Union. Admittedly, the rapid adoption of the cell phone in most countries is predominantly associated with young people. But the growth area of Japanese telecommunications is internet software for the cell phone and the manufacturing of this type of mobile phone. Speed of internet access from the cell phone is expected to be enhanced by the introduction of broadband optical cable infrastructure. According to Goldman Sachs and IDC, Japan will have approximately 55 million internet users by 2003. This expected usage will represent more than one third of the Japanese population in 2003. Right now internet penetration is approximately 22 percent in Japan while the U.S. internet penetration is roughly 37 percent, according to Goldman Sachs survey data displayed in the September 6, 2000 Financial Times.

Internet penetration rates are somewhat related to income per capita in various Asian countries and the United States. But the internet penetration rate is higher in the United States even though the Japanese income per capita of approximately $40,000 is higher than the approximately $36,000 income per capita figure for the U.S. India, Indonesia, and China have the lowest per capita incomes and extremely low internet penetration rates. Since personal computers are not pervasive in Japan but mobile phones have been widely adopted, internet access by mobile phone is expected to find wide acceptance in a short period of time.

Japan is known for its domestic use of electronic products and its exports of these high-quality products around the world. For some time, semi-conductor chips for electronic products were produced in Japan, and Japan became a world leader in this production. In recent decades, the leadership in semi-conductor chip production has been taken over by South Korea, Taiwan, the United States, and other countries. Computers are assembled in Japan and other Asia countries from parts produced elsewhere, in many instances from southeast Asia. As the second-ranked world economic power, Japan has sought to produce high value-added products perhaps from components produced in other countries where labor is less costly for labor-intensive production.

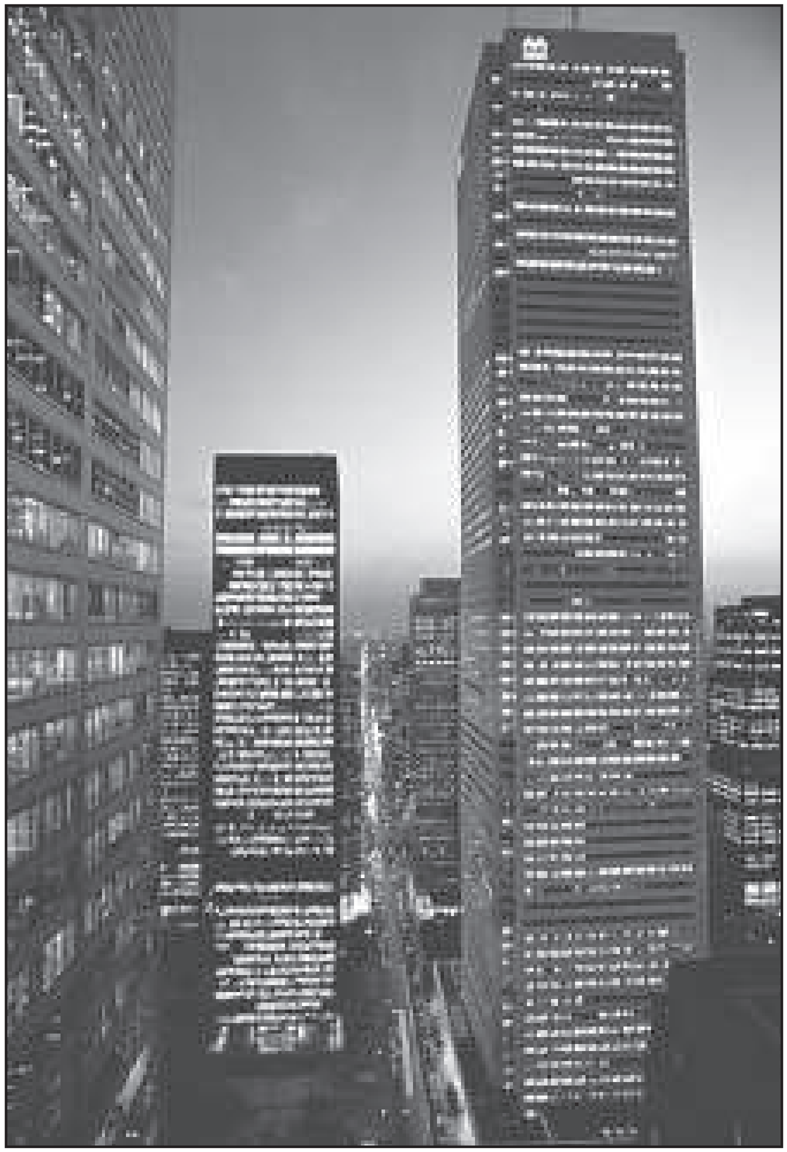
•***E-Commerce.*** The development of web sites for promotion of business-to-consumer (often abbreviated B2C) sales and business-to-business (often abbreviated B2B) sales is slowly taking place in Japan. The Y2K (year 2000 computer) crisis, the Asian financial crisis, and the long Japanese recession of the 1990s have delayed the promotion of web use for business activities. The United States and the European Union are expected to dominate global B2B commerce by 2005, according to Goldman Sachs. The B2B e-commerce penetration rate for Japan is expected to gradually rise to a little over 10 percent by 2003. At the same time, the U.S. B2B e-commerce penetration rate should be approaching 20 percent, according to a study by the Japan Ministry of International Trade and Industry and Andersen Consulting of Japan. China, India, the southeast

Asian countries, and the South Pacific countries are also slowly developing online business capacity. The same thing is true of Western, Eastern, and Central Europe. Potential users are surveying the possible benefits and drawbacks.

Some major obstacles confront those in Japan who seek to start up and find profitability from a "dotcom" company, whether its a B2C or a B2B company. The keiretsu system of interlocked industry representatives led by a major bank remains in place even though some changes have taken place, particularly in the banking sector. This system promotes business within the group rather than competitive business with any supplier or distributor. E-commerce tends to be an open, global business medium where such restrictions as those imposed by the keiretsu generally are not accommodated. Another obstacle is the multi-layer distribution system. Transactions over the web tend to bypass various layers of the established Japanese distribution channels. Prices of products offered on the web may be less due to the elimination of some distribution costs. As individual and business customers are attracted to the lower prices, the established distribution companies and their employees may disappear. The dotcom company may represent transactions between the manufacturer and the customer, the middlemen customarily used may or may not be needed. On the other hand, the dotcom company may represent transactions between the retailer and the customer, again the customary wholesalers may or may not be needed to complete the transactions. The threatened distribution companies tend to sabotage the e-commerce system that theoretically may reduce prices to the individual or business customer. The Japanese e-commerce B2C and B2B businesses have been slow to get off the ground. But this may be a wave of the future that reduces Japan's overall price structure and modernizes the historic multi-layer distribution channels.

Rapid order fulfillment in e-commerce continues to be a problem in the United States, the United Kingdom, and the European Union. Cooperation of middlemen in the established distribution channels is needed even though middlemen tend to be undercut in the cost reduction, price reduction system. But appropriate transportation and logistics systems are needed to meet the demands of impatient customers who are usually promised next-day or two-day delivery service. Fulfilling such commitments in Japan is proving to be a formidable task. The established logistical systems are saturated and overworked due to high population density in urban places and traffic congestion on the main thoroughfares and secondary roadways. Most of the transportation infrastructure needs to be renovated or rebuilt to higher volume and quality-of-service standards.

• Healthcare Services. Healthcare services and pharmaceutical development, manufacturing, and distribution are fields of expanding business. The average age of the Japanese population is increasing as it is in the European Union, the United States, and Canada. Japanese pension plans are developing; pension funds are increasing in size; housing and related communities for retired citizens are needed; medical service for all ages including the increasing retired population is expanding; and medical insurance coverage for cancer and other serious medical conditions is becoming available through change in legislation. The extended recession brought attention to the rapidly rising health care costs and the scarcity of government and personal resources to pay for needed care now and in the future.



•***Leisure Services.*** As the work week declines, entertainment services are needed for the nonworking periods. The success of Japan Disneyland is now being sought by many domestic and foreign developers of proposed entertainment centers. During the decade of the 1990s, the typical work week declined from six days of 10- to 12-hour daily work to a typical work week of approximately 40 hours within a five-day work week. From the six-day week that ran from Monday through Saturday, the typical work week declined to a five and one-half day week that included only a half day on Saturday. Then the work week on average declined to Monday through Friday each week plus only one Saturday a month. Now the Saturday employment is disappearing for typical office workers. The "salaryman" now may work only a five-day week from Monday through Friday. Once the "salaryman" refused to take the annual vacation because he or she felt that the work assigned to the group had to be accomplished as a first priority; often the vacation time was taken partially or not at all. The labor force of "salarymen" has been comprised mainly of men; female workers have long been relegated to "female" work that generally characterized secretarial work within the corporate structure. Therefore, today the "salaryman" has more time for leisure and has more desire for a full-range of entertainment opportunities. As the economy again thrives, a wide variety of leisure opportunities in a full range of costs will be demanded.

•***Business Educational Services.*** As companies seek profitability from fewer and better trained and educated employees, business education services are increasingly sought. As the education system in general is reformed, higher education services in the business area are expanding to meet the need of small, medium, and large businesses. The historic university system has catered to the arts and sciences, law, engineering, and medicine. Business education has generally fallen under the category of economics within arts and sciences programs. Very little real estate education has ever been offered by Japanese colleges and universities. Today employees who wish to meet the demands of the rapidly changing business marketplace seek computer science and management courses along with foreign language courses with business applications for the coming international trade and real estate opportunities.

Corporate Real Estate Needs

While some traditional industries such as full-service department stores and auto manufacturing plants are retrenching and need less corporate real estate, other industries such as those related to healthcare, leisure services, and internet software for e-commerce are expanding and need more corporate real estate. The corporate real estate left vacant by the traditional lines of business owned by both domestic and foreign investors may or may not fit the needs of the expanding businesses. This process of economic regeneration and real property redevelopment and construction continues across the centuries in Japan and in worldwide locations. The global changes in international trade and investment by multinational companies and institutions lead to a vibrant multinational corporate real estate sector.

In Japan the government tends to follow certain policies with respect to corporate real property use, construction, and redevelopment. Companies that are locating for the first time in Japan are advised to seek locations in the less populated areas such as Hokkaido, the northernmost region. New companies whether Japanese or foreign owned are encouraged to seek locations outside the principal metropolitan areas of Tokyo and Osaka; these areas reflect major urban problems that stem from the high density of land use for commercial and residential purposes. Industrial corporate land users are particularly encouraged to seek sites in the many industrially zoned areas of southern, northern, and central Honshu Island, Shikoku Island, and Kyushu Island. Even corporations needing quality office space are encouraged to find locations in suburban areas away from the central business districts of the capital city of Tokyo, Osaka, Nagoya, Kyoto, and Kobe. As new corporate land users seek locations, they recognize Japanese property prices and lease terms are relatively high in global comparisons even though these values have declined during the long recession.

Foreign and domestic telecommunications and computer software companies generally seek large “campuses” for their operations that require large numbers of employees. Many hectares of vacant land for campus-type, high-quality office and research and development space with appropriate transportation and other infrastructure are difficult to locate in Japan. Large companies in Japan have often resorted to highrise office building development to avoid the need for such large expanses of land. These companies usually require administrative headquarters space in the central business district of Tokyo or Osaka. The current redevelopment of the Marinouchi District and the adjacent districts of the central business district of Tokyo can accommodate the headquarters office needs of the telecommunications and software development companies. Manufacturing, product assembly, and research and development operations may be relegated to less crowded urban areas where casually dressed employees may fit better in the business communities.

As e-commerce grows - whether Business-to-Consumer or Business-to-Business - product storage sites and distribution center sites must be found in appropriate locations in Japan so that the providers of goods and services may meet their delivery deadlines. Often e-commerce companies promise "next day" or "two-day" delivery. To meet such competitive deadlines at relatively low customer prices, a logistics system must involve reliable, fast delivery and distribution systems. At the same time that expanding company requirements must be met, the delivery systems of such cities as Tokyo and Osaka are already overloaded.

The expanding healthcare industry requires various types of corporate properties that are necessary to the future health of Japanese citizens and foreign citizens who live and work in Japan. The aging of Japanese citizens means more elderly citizens need safe and healthy living environments with appropriate medical services closeby. New communities for senior citizens are being developed in suburban and in more rural areas with access to major cities. The government is attempting to facilitate the development of such residential communities where hospitals and clinics with appropriate services would be located in close proximity. Government healthcare insurance is being reformed to supplement private healthcare insurance coverage to satisfy the financial needs of the elderly citizens with regard to medical costs. The corporate real estate needs of the healthcare industry are associated in part with the corporate real estate needs of leisure services. Elderly residents utilize a high proportion of leisure services in any country including Japan.

From the success of Japan Disneyland, the numerous golf clubs, the numerous multi-level golf driving ranges, and the professional baseball teams and leagues, Japan's scarce, habitable real property must accommodate more leisure developments. Theme parks with associated commercial space are being developed for the work force that increasingly has more leisure time. The new leisure centers compete with the high-tech companies and senior-citizen community developers for scarce, well-located space that consumes many hectares of very valuable land.

In the past the universities and colleges of Japan have catered to arts and science academic programs with little attention to education for business. As Japanese business and government restructures with the layoffs of many thousands of employees, the retraining and education for persons seeking new employment in needed business occupations is more required in Japan, perhaps, than it has been. Engineers are still needed; far more attorneys and business managers are needed. The culture may change to encourage citizens to prepare for careers in business at the universities and colleges. Instead of lifetime corporate employment, the citizens must be educated and trained to accommodate multiple and perhaps changing job requirements within their lifetimes. For the retraining and education of the current workforce, more educational facilities are needed in separately owned and in leased space that is close to major employment work places and homes. After-working-hours education is needed for the existing work force. Those currently unemployed seek education and training near their homes that may be in the center city or in the less populated suburbs. Corporations must accommodate the on-the-job education and training of their valued employees. Universities and colleges, both Japanese and foreign, need to develop new business education programs including programs in international business.

Prospects for the Future

Japan, the world's second ranking economic power, continues to generate positive trade balances with most of its trading partners. Due to its global trading prowess, large financial reserves, relatively high personal savings rate, continuing government-business cooperation, dynamic multinational business operations, strong work ethic, and national pride, this highly developed economy will restructure its businesses, reinvigorate its economy, welcome the benefits of electronic commerce, and again thrive in the global economy. The future higher levels of international trade will be accompanied by a changed real estate sector which will reflect new real estate investment patterns, new methods of real estate analysis and appraisal, and new marketing methods with increased use of the internet. A higher level of international trade will probably be realized even though the Japanese currency will probably remain strong and an obstacle to greater international trade and investment. As more foreign investment is attracted, the Japanese real estate system may take on more characteristics of the U.S., European, and other international real estate systems. The investment requirements of the foreign investors will be met by a relatively flexible Japanese real estate community.

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