

## Food for Thought – Japan: Prospects Dim in Quake Aftermath

By Mark Antoncic

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The consequences from Japan's tsunami and nuclear power plant disaster continue to play out, raising more serious questions for real estate investors by the day. Even before the earthquake crisis, some investors had been abandoning the market and opportunity players in Japan had been disappointed by the lack of distressed product for sale, the result of continuing bank extend-and-pretend policies encouraged by the government. Investors also had been increasingly discouraged about the nation's chronically sideways economy, ageing demographics and declining population. Now add in the blows of earthquake devastation, loss of life, and unprecedented nuclear catastrophe. Early analyst reports anticipating a potential boost for the Japanese real estate economy from rebuilding and cleanup now seem optimistic.

At Carpathia, we asset manage LP investments in Japan touching more than 500 varied real estate assets exceeding several billion dollars of value. The near-term view for market prospects and performance turns increasingly bearish in the pall of ongoing uncertainty and inevitable dislocation. Weighing down prospects are the obvious tangible impacts from the earthquake to business and commerce as well as hard to measure blows to the psyche of the average Japanese.

In a country heavily dependent on outside sources of energy, losing at least four nuclear reactors could result in continuing rolling blackouts in Greater Tokyo for months to come extending into the hot summer. The disruption hobbles manufacturing and supply chains, threatening to undermine any near-term chance at economic growth, and the unprecedented radiation hazard from the plants plays havoc with timetables for clean-up and restoration - the area around the reactors could be off limits for years or even decades to come. Then consider how the country must deal with the nearly 18,000 killed, and the many more still missing. One can surely understand how the famously reserved Japanese understandably retreat further into shells of worry, concern and mourning.

Government and power-company officials hope to cool down the damaged reactors by the end of the year, but understandably cannot predict outcomes with any assurance. Under these perilous circumstances, here are some thoughts to consider when assessing value in the various property sectors during the remainder of 2011:

**Retail** - Retrenchment leads to a drop in household spending and sales; some store closings and rent reductions should be expected.

**Hotel** - Business travel has already skidded and may bounce back some as conditions improve. But offshore tourists having second thoughts about making visits and canceled domestic vacations, parties and events could lead to lower RevPAR and food and beverage sales. For the average Japanese coping with the trauma, it's generally no time for celebration or care-free leisure pursuits. Resorts could really feel the pinch.

**Office** - Uncertainty breeds indecision - it's definitely no time to expand and tenants may put off leasing decisions. Foreign companies could waver on locating in Tokyo, and perhaps have more impetus to focus on China and other Asian markets for regional bases. At best, occupancies and rents hold up, but tempered demand could lead to declining income streams and lowered returns.

**Industrial** - Toyota's well-publicized problems meeting manufacturing demand highlight turmoil throughout the country's industrial sector. Rising worldwide oil prices increase power costs in the wake of nuclear plants going out of operation. Factories struggle to fill orders and import/export activity declines could hit warehouses hard.

**Apartments** - Multifamily tends to be more insulated than other property sectors, but investors must examine holdings market by market. Expat housing in Tokyo and other major markets could feel a chill, but areas absorbing dislocated residents from the disaster zone get a boost. Overall, rents could weaken in the face of the general economic slide.

Japan, the world's third largest economy, remains a major global force and Greater Tokyo will continue as a primary gateway market. But the giant March earthquake appears to hasten the country's waning clout after recently being overtaken by China as the dominant regional power. A rebound in the country's near-term economic fortunes appears remote; players have been waiting almost two decades for a spike, and its real estate markets could languish over the next 12 months. Revenue losses will likely strain distressed or near-distress properties, and overall investor interest can be anticipated to slacken amid the ongoing uncertainty.

### **About the Author**

*Mr. Antoncic is a Managing Partner of TriLyn LLC, a boutique investment firm that serves as both a principal and asset manager for debt oriented real estate investments. In addition, he is a Managing Member of Carpathia Real Estate Advisors LLC, a joint venture between TriLyn and Tuckerman Group/State Street Global Advisors. Carpathia provides institutional clients strategic services for managing real estate equity and debt portfolios, seeking to protect and maximize value in today's demanding markets. Mr. Antoncic has over 30 years of real estate and capital market experience, has lived in Japan, and has focused on the Japanese markets for over 15 years.*

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