

M&G REAL ESTATE: JAPAN, LAND OF THE RISING RESI RETURNS – YET STILL UNCHARTED WATERS FOR FOREIGN INVESTORS

LONDON, 24 July 2014 – Japan’s residential sector is now offering high income-driven returns as its economy recovers, yet the sector remains uncharted waters for foreign institutional investors, according to the latest research published today by M&G Real Estate.

‘M&G Real Estate Perspectives: Opportunities in Asia’ highlights the attractive risk adjusted returns available for investors in Japan’s residential sector of which only well-established domestic institutional investors are taking full advantage. As an asset class, it accounts for almost one third of private real estate funds’ portfolios in Japan, according to the research.

Residential demand has increased with a strengthening economy and higher migration rates into major cities such as Tokyo, Osaka, Nagoya and Fukuoka. Simultaneously, supply has become limited as construction of new dwellings declines, with a sharp fall in the completion of units seen over the last three years.

Over the medium term, strict rules on planning permission and increased land and construction costs are expected to continue to restrain growth of residential supply, supporting the prospects for rental growth – reason to whet investors’ appetite.

Demand for rental properties is also supported by the high ratio between owner-occupied and rented units in large cities, which is estimated at about 50:50.

Foreign institutional investors are increasingly likely to be attracted to the Japanese residential sector since the asset class has proven to offer stable and resilient returns, with an annual return/volatility ratio as high as 0.90. This risk-adjusted return measure is broadly in line with that of the retail sector at 0.89 and materially higher than 0.40 of the office sector.

Consequently, M&G Real Estate, on behalf of its core Asia real estate strategy, has recently purchased its first residential property, F Parc Tenjin in Fukuoka, Japan – an 18-storey, 174-unit building in the centre of this strategic hub city in western Japan.

Commenting, Richard Gwilliam, Head of Property Research, M&G Real Estate, says: “Residential vacancy rates have been pushed down to as low as 5 percent, and this compares favourably to 7 percent vacancy rates in Tokyo’s Grade A office market.

Japan's residential sector is now more attractive than ever for institutions looking to invest in Asia's biggest real estate market.

"Our analysis supports the inclusion of Japanese residential as an investable core real estate market. The sector offers an attractive income-driven return profile, improving market fundamentals and good liquidity – attributes which have already earned it a key part in the real estate portfolios of domestic institutions and now M&G Real Estate's core Asian portfolio."

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For further information please contact:

Drew McNeill
Redwood Consulting
drew@redwoodconsulting.co.uk
020 7828 5553

Notes to Editors:

About M&G Real Estate

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M&G is the investment arm of Prudential Plc in the UK, Europe and Asia. For more information please visit www.mandg.com/realestate

About M&G

M&G is an international active asset manager, investing on behalf of individuals and institutions for over 80 years. At 31 March 2014 the firm manages over £248 billion of assets through a wide range of investment strategies across equities, bonds, property and multi asset.

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