

# Real Estate Analysis Report

## Japanese Companies Expand Asian Property Businesses into Southeast Asian Countries

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### Summary

- While many global companies focus on Asian businesses, even Japanese companies in domestic property industries are entering Asia. As target business areas have recently been expanding into Southeast Asia from mainland China, the Asian property business is growing and diversifying.
- Many Southeast Asian cities are facing strong residential demand and have long-term growth prospects with decades of demographic dividends. Compared to mainland Chinese cities where Hong Kong and Singapore companies have dominant positions, Southeast Asian cities have room for Japanese companies to win promising opportunities with the backdrop of a Japan-friendly environment.
- While residential development is still a major property business in Asia, some companies have entered other categories such as office investment and construction of new towns with shopping malls. Since each city is unique and has various property needs, a strategy for deciding which sectors and areas to invest in or develop is very important, and so is business form with partners. As foreigners face entry hurdles such as regulations in the Asian property market, pursuing business opportunities away from them will accelerate Asian business expansion.

## 1. Expanding Asian Property Businesses

The Asian region has been a recovery driver for the global economy since the global financial crisis in 2008. Many global companies have expanded their Asian businesses to pursue growth that no other regions can offer. Not only Japanese global manufacturers but also Japanese property companies in typical domestic industries are entering Asia.

Though uncertain factors such as the European debt crisis dominated the global market in recent years, the US and Japanese economies appear to finally be recovering. An increasing number of companies are expected to expand their Asian businesses with widened risk allowance hereafter.

Looking back at the Asian property market in 2012, concerns about the Chinese market, which has a dominating market size in the region, garnered market attention. The PRC government had tightened property regulations one after another since 2010 to suppress residential property prices and tuned out to decrease new home sales and residential developments drastically.<sup>1</sup> Furthermore, consumer boycotts of Japanese products and destruction of Japanese stores in the Chinese anti-Japan protests were shocking and discouraging for Japanese companies.

However, the anti-Japan protests actually did not seriously influence their businesses since condominiums, their main product in China, are different from cars, which have Japanese brand logos. It seems that residential development in China will remain a major business category for Japanese companies in the future.

The Chinese proportion in the Asian property business can be smaller, however, since many companies are entering Southeast Asian countries. This is not always because the Chinese market becomes uncomfortable, but because Asian business has grown to the degree of diversifying into other Asian countries.

## 2. The Attractive Southeast Asian Market

Many Southeast Asian cities are facing strong residential demand, which is one of the reasons for the increasing number of participating Japanese companies. The following is a simple analysis of city characteristics and property demand (Chart-1).

In emerging cities in which new key facilities are constructed, such as factories, mining bases, and tourism facilities, demand for residential properties and logistics facilities will grow a certain degree.

In growing cities, strong residential demand grows with rapid population inflows and retail demand grows in the city center too. Many Southeast Asian cities, Chinese Tier 2 and 3 cities, and satellite cities of mega cities are looking to be in this growing city category.

In growing major cities such as Chinese Tier 1 cities, financial and other service

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<sup>1</sup> At the end of 2012, the residential property prices strengthened again with a loosening policy preparing for the new government. The new government announced a re-tightening policy against the property market in February 2013.

industries develop strongly and office demand grows. Residential demand also maintains robust growth and expands into suburbs with shopping center demand.

In mature cities such as Tokyo, a certain degree of residential and office demand remains, but overall it does not grow. Some properties are re-developed to secure good demand and others are left vacant. New property sectors, such as high quality logistics facilities for internet shopping and nursing housing for the increasing number of seniors, face good demand.

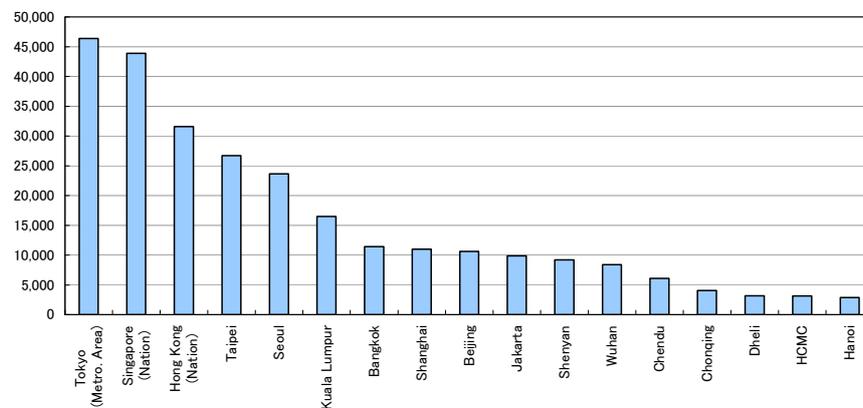
**Chart-1 City Characteristics and Property Demand**



Source: NLI Research Institute

Currently, residential property development is the most popular business in Asia, benefiting from strong demand based on a rapidly increasing middle class. Many Chinese Tier 2 and 3 cities and Southeast Asian cities are in the “growing city” and “growing major city” categories, which face strong residential demand. In Chinese Tier 2 and 3 cities, even foreign capitals are looking for land appropriate for residential development. Apparently, this trend crosses borders into Southeast Asian countries. GDP per capita by city shows that Chinese cities and Southeast Asian cities are similarly staged in terms of city development (Chart-2).

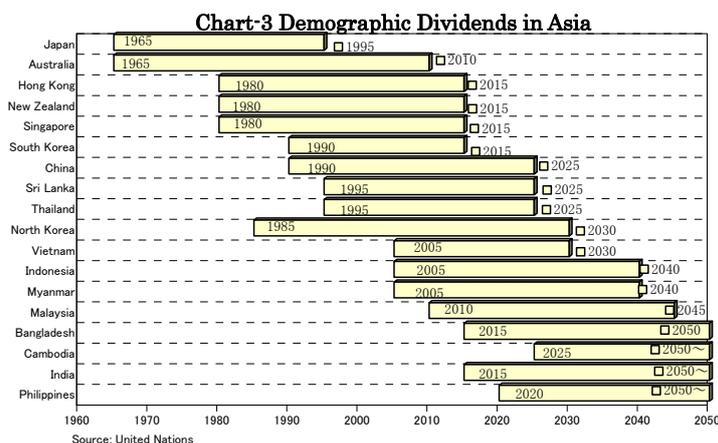
**Chart-2 GDP per Capita by City**



Source: National Statistics Bureaus

As seen above, many Southeast Asian cities face strong residential demand, and further, they have good long-term growth prospects. In comparison to China, where the single-child policy suppresses the period, Southeast Asian nations are expected to realize

long-term demographic dividends (Chart-3). Indonesia with its emerging industrialization is a growth driver for the region with long-term growth prospects and its large economy. Other relatively developed nations such as Thailand and Malaysia also have long-term demographic dividends. Malaysia particularly will have more than 30 years of the demographic dividends based on the Islamic cultural background, which will benefit neighbors like Singapore in the long-term.



Southeast Asian cities have good actual residential demand from local people as well as from foreign immigrants. As they are popular among retired Japanese, they welcome foreign immigrants. For example, in Malaysia residential properties are transacted by foreigners both for investment and for occupation. Demand from foreigners will mainly support the luxury residential market.

The excellence of hospitality works well not only with the residential market but with inviting companies as well. Many manufacturing companies move their factories from China to Southeast Asia because of expensively raised Chinese cost bases. However, it is not economic reasons alone that explain company moves, but excellent hospitality partially explains them as well, especially moves of Japanese companies with backdrops of Japan-friendly environments in Southeast Asia.

Compared with mainland Chinese cities, it seems Southeast Asian cities are more open to Japanese companies. It is often the case in mainland Chinese cities that Hong Kong and Singapore developers own remarkable office buildings and retail malls at the city center, and most new development projects are undertaken by local or Hong Kong companies. It does not seem easy for Japanese companies to win a promising project in competition with Chinese players who have an advantage in terms of language and Chinese human networks. On the other hand, they do not have such dominant positions in Southeast Asia, and Japanese and Korean companies can compete there.

### 3. Key Points in Entering Asia

#### (i) Business Strategy

While residential development remains the main Asian property business for Japanese

companies, some companies are engaged in other categories such as office investment and construction of new towns with shopping malls (Chart-4).

Each country and city has different transportation networks, commuting measures, property market customs and lifestyles. It is possible that a city will totally change its characteristics after future construction of infrastructures such as metro railways and highways.

Normally foreigners develop new projects by themselves because the quality of existing buildings is questionable. However, more opportunities including existing property investment will be available with enough preparation for due diligence.<sup>2</sup> A strategy for choosing which sectors and areas to develop or invest in is critical and must be flexible in accordance with each city.

**Chart-4 Non-Residential Asian Property Businesses by Japanese Companies**

Region	Project Category	Name	Outline
China	Office Complex	Mori Building	Office Development (Shanghai World Financial Centre, HSBC Tower, Sinmao Tower), Retail Consulting Business
		ORIX	Office Development in Dalian (China H.Q.)
		Shinnihon Corp.	Office Condominium Development at Shengyan Station
	Retail and Others	Mitsui Fudosan	Condominium Development in Tienjin Eco City, Outlet Mall Dev. in Nimbo
		Mitsubishi Estate	Outlet Development in Shengyan (with Symphony)
		Mitsubishi Corp.	Retail Development in Tienjin
		Daiwa House	Large Condo. with Retail Mall Development in Changzhou
		Keihan Railway Tokyo Tatemono	Office Condo Complex Development in Shengyan (with Shengyan Vanke)
		Tokyu Land	Office Condo Complex Development in Shengyan, Service Apartment Management in Shanghai
		Daibiru	Office Investment in HCMC (Saigon Tower)
S.E. Asia	Office Complex	Toshin Dev. (Takashimaya)	Office Retail Complex Development in HCMC (Saigon Centre 2, with Keppel)
		Sankei Bldg.	Office and Service Apartment investment
		Mitsubishi Estate	Office Development in Singapore (with Capitaland)
	Retail and Others	Mitsui Fudosan	Outlet Development at KLIA and suburb of Taipei
		Mitsui & Co.	Office Development at Business park in Singapore (with Ascends)
		Marimo	Service Apartment Development in Jakarta
		Tokyu Corp.	New Town Development in suburbs of HCMC
		ORIX	Office Hotel Complex Development in Manila (with local bank)
		Toyota Tsusho Toyota Home Tokyo Land	Service Apartment Development in Indonesia

Source: NLI Research Institute

## (ii) Business Form

A business form for entering the market is also very important, including choosing a partner. In many countries, regulations require entering a market by establishing a local subsidiary, but making a business base alone through a local subsidiary is tough. In that case, there is general dependence on a local partner for many things such as government approvals and local networks.

However, without sufficient mutual understanding in advance, a business will not succeed as expected due to incapable partners or conflicts in business policies.

To avoid partner risks, some companies build a partnership with a well-known Singapore or Hong Kong company and enter emerging markets as a foreign company group. This is a good strategy, but it does not seem easy for Japanese companies to take initiative on local projects. Considering the partnership as a wide concept can be a good

<sup>2</sup> Daibiru acquired Saigon Tower, a grade-A office building developed by a Hong Kong company in HCMC, following prior research by a local subsidiary.

solution, for example making use of a partner's network to invite foreign capital into the Japanese market.

However, since Singaporean companies are also foreigners in local markets, building a good relationship with an excellent local partner should be better. It could be even better if a local subsidiary can establish a successful business base by itself, though requiring considerable time and resources. Actually, a few Japanese companies have established local businesses by themselves with long-term local experiences.<sup>3</sup>

**Chart-5 Business Forms for Entering Asian Property Markets**

Own Status	Partner Company	Remarks
Taking Initiative	—	Independent after long-term effort
	Local Developer	Leading a local partner after long-term effort (Manufacturing in housing development)
	Japanese Company	Involving as a Japanese group such as industrial park dev. by trading companies
Dependent on Partners	Singapore or Hong Kong Developer	Dependent on a partner and playing a supporting role
	Local Developer	Dependent on a partner and playing a supporting role

Source: NLI Research Institute

**Chart-6 Asian Property Business Partners of Japanese Companies**

Partner Category	Place	Business Category	Japanese Company	Major Share	Partner Company
Local Partner	China	Condominium Development	Marubeni, (Mitsubishi Estate, Mitsui Fudosan)	○	Shanghai Tailu
			Sumitomo R&D	○	Yida
			Tokyo Tatamono, (Keihan Railway)		Vanke
			Mitsubishi Corp.		Jindi
			Sumitomo Corp.		Zhang Jian You Yi
			Mitsui Fudosan		SSTC (Gov't), Chang Chen
		Outlet Mall Development	Mitui Fudosan, Itochu Corp.		Shan Shan
	Singapore	Condominium Development	Sekisui House		Far East O, Frasers C
			Mitsui Fudosan		Hong Leong
			Mitsubishi Estate		Capitaland
		Office Retail Complex Dev.	Mitsui & Co.		Ascendas
		Business Park (Suburban Office) Dev.	Mitsui & Co.		Ascendas
	Thailand	Detached House Development	Sekisui Chemical	○*	Siam Cement
	Vietnam	Condominium (New Town) Dev.	Tokyu Corp.	○	Becamex IDC
	Taiwan	Condominium Development	Daikyo		Far Eastern
Indonesia	Service Apartment Dev.	Toyota Tsusho, Toyota Home, Tokyo Land	○	Lippo Kowaraci	
	Office Retail Complex Dev.	Marimo, (Sojitz)	○	Metropolitan Land	
The Philippines	Office Retail Complex Dev.	ORIX		Metro Bank (Federal Land)	
Malaysia	Condominium Development	Mitsui Fudosan	○	E & O MAHB (Gov't)	
Singapore Partner Hong Kong Partner	China	Outlet Mall Development	Mitsubishi Estate		Symphony
		Condominium Development	Mitsubishi Estate		Sabana (Capitaland)
	Vietnam	Condominium Development	Marubeni, Tokyu Land		Sun Wah
		Industrial Park Dev. (Township Dev.)	Mitsubishi Estate		Capitaland, GIC
Japan Only (Main)	China	Office Retail Complex Dev.	Mori Building	○	—
		Condominium Development	Daiwa House	○	—
		Condominium Development	Sekisui House	○	—
	Indonesia	Detached House Development	Tokyu Land	○	—
	Malaysia	Detached House Development	Pana Home	○	—
	Vietnam	Office Investment	Daibiru	○	—
		Industrial Park Dev.	Sojitz, Daiwa House	○	(Local, Small Part)
	Myanmar	Industrial Park Dev.	Marubeni, Sumitomo Corp., Mitsubishi Corp	○	—

\* "○" means major share holding of a factory in housing business.

Source: NLI Research Institute

### (iii) Entry Hurdles and Opportunities

In Asian countries, foreigners often face difficulties in property businesses such as

<sup>3</sup> Tokyu Land and Marubeni have been engaged in local property businesses in Indonesia and China, respectively, for more than 30 years.

ownership restrictions and time-consuming processes by the local governments, which require the support of local partners. It seems creating new businesses away from those hurdles will accelerate Asian business expansion.

For example, Japanese companies generally take initiative in detached housing development in Asia.<sup>4</sup> In Thailand, foreign capital restrictions are very strict and foreigners cannot own more than half of properties. Unit detached housing development consists of manufacturing units in a factory and assembling them on construction sites. A local partner plays a major role in land acquisition, but a foreign company is allowed to own a factory as a manufacturer and can take initiative on manufacturing.

Another Japanese company has started a consulting service without investing in properties for Asian clients developing retail complexes.<sup>5</sup> Asian local companies do not have much experience in developing large projects such as office retail complex buildings. It seems local companies and the governments highly expect contributions of experienced Japanese companies.

Similarly, Japanese companies often get involved in large infrastructure development projects as a group. Property companies often join as a Japanese group member with facility makers and system integrators. As the number of smart city developments planned in Southeast Asia are increasing, property companies can realize more opportunities if they can expand into businesses other than investing in properties.

In Asian countries where foreign companies face difficulties in entry, capital movement restrictions again bother them in retrieving accumulated profits. It is better to prepare a capital exit plan in advance or consider local re-investment opportunities in the long-term.

As seen in the Thai flooding at the end of 2011, lack of infrastructure can lead to an unexpected disruption in Southeast Asia. As shown above, however, there is little doubt that the region is a promising market for Japanese companies.

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<sup>4</sup> Some Japanese companies have entered into detached housing development in Asia, such as Sekisui Chemical in Thailand, Tokyu Land in Indonesia, Daiwa House and Sekisui House in China, and Pana Home in Malaysia.

<sup>5</sup> Mori Building has started consulting businesses in Asia with affluent development experience of office retail complexes, Hills series in Japan and Shanghai.

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