

Property Investments by Asian Insurers ~Potentially Active Investors into Japan~

Financial Research Department Mamoru Masumiya
(813) 3512-1853 masumiya@nli-research.co.jp

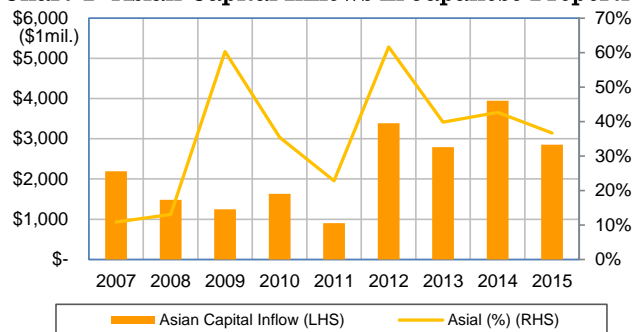
1 | Increasing Capital Inflows From Asia

Foreign capital inflows to the Japanese property investment market have recently increased, years after the Global Financial Crisis. In particular, capital inflows from Asian countries have grown significantly (Chart-1) and Asian capital has become as influential to the Japanese property investment market as that from the United States.

Among the Asian capital that recently acquired sizable Japanese properties, sovereign wealth funds have particularly been noticeable such as China Investment Corporation (CIC) acquiring Meguro Gajoen, and Government of Singapore Investment Corporation (GIC), the manager of the Singapore foreign reserve, acquiring Pacific Century Place, both of which are valued at more than 1 billion US dollars.

However, Asian insurers have never been noticeable on the list of acquirers, though theoretically they are said to be a good fit with long term property investment for stable income. It would be interesting to check how actively Asian insurers invest in property assets outside Japan.

Chart-1 Asian Capital Inflows in Japanese Properties



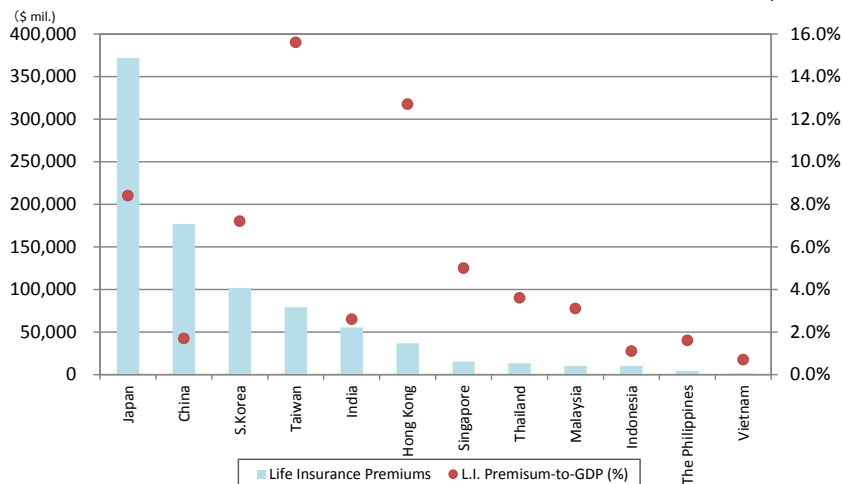
*Data includes deals bigger than \$ 10mil.
Source: Real Capital Analytics www.rcanalytics.com

2 | Property Investments by Asian Insurers

Insurance markets are still immature and much smaller in most Asian countries in comparison to Japan, as confirmed by their small insurance premium-to-GDP ratios (Chart-2). Some countries have relatively matured insurance markets such as Taiwan and Hong Kong. However, their market sizes are limited due to their modest economic sizes.

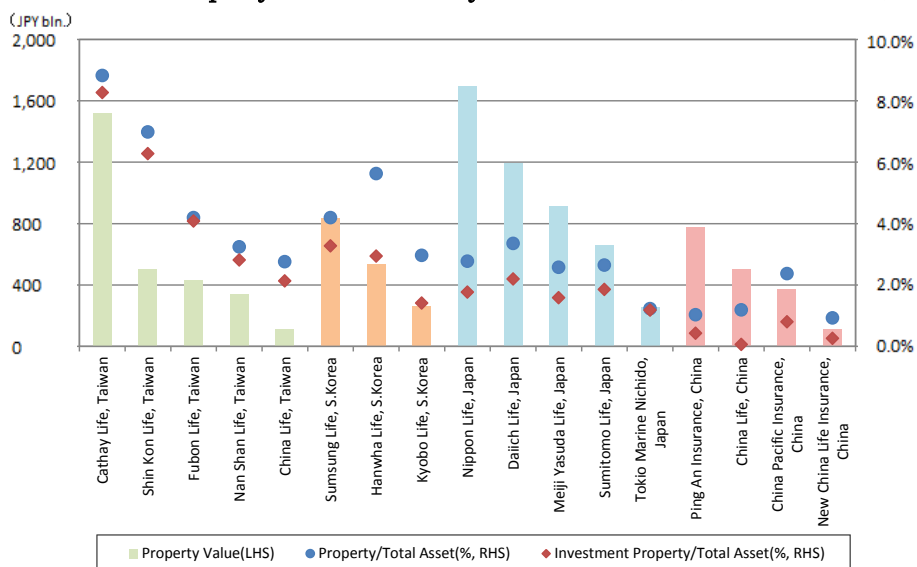
Therefore, sizable insurers that are influential on the property investment markets tend to be found in relatively large markets such as Japan, China, South Korea and Taiwan. Compared with each other, insurers in these four countries have clearly different characteristics in terms of property investments (Chart-3).

Chart-2 Life Insurance Premiums in Asian Countries in 2014 (% to GDP)



Source: Tomiichi Hiraga, "アジア生命保険市場の動向・変化と今後の展望" NLI Research Institute Letter, Jul. 7, 2015

Chart-3 Property Assets Owned by Asian Insurers (% to Total Assets)



* General Account Numbers for Japanese Life Insurances
Source: Annual Reports 2014

Taiwanese distinguish themselves as the most aggressive property investors among Asian insurers with quite high property-to-total asset ratios. For instance, Cathay Life Insurance has property asset amounts as large as Japan's Nippon Life Insurance, which is stunning considering that the property stock in Taiwan is much smaller than in Japan. Taiwanese life insurers have established overwhelming positions in the domestic property market. Actually, no more significant investors other than insurers have been seen in Taiwan, as only five small T-REITs are listed and Taiwanese property developers do not own massive property portfolios like the Japanese developers. Due to the low interest rates, Taiwanese insurers have been aggressive in property investment even in overseas markets and they apparently believe in property value appreciation based on their long term track-record.

Other than Taiwanese, South Korean insurers have also invested in properties proactively, both domestically and overseas, with twice the investment property-to-total asset ratios as those of Japanese insurers. As the National Pension Fund has been engaged in property investment, property assets have been regarded as one of the main investment objectives for institutional investors. While some conglomerates dominate the South Korean property investment market, life insurers are one of the largest property investors at the heart of the conglomerates groups such as Samsung Life Insurance.

On the other hand, Chinese insurers have recently been allowed to invest in properties since 2010 and still have very low investment property-to-total asset ratios.

However, Chinese insurers already own a great portion of properties due to their sizable total assets. Furthermore, some Chinese insurers have already become active property investors, such as China Pacific Insurance with more than 2% of its total assets invested in properties.

3 | Prospects

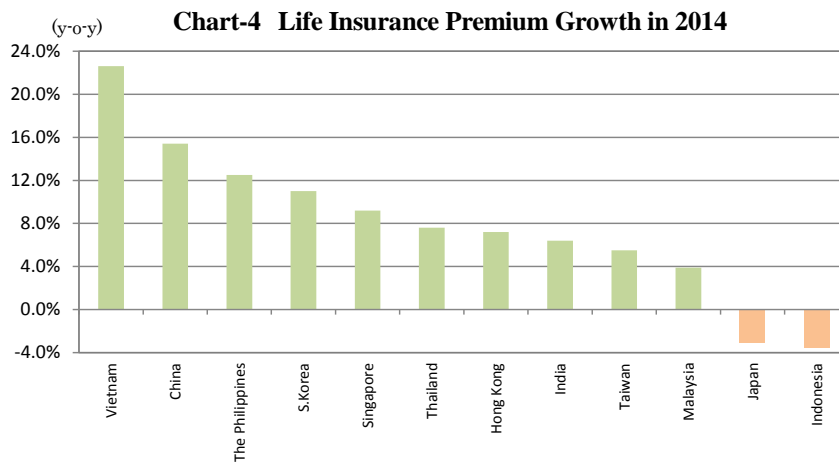
Despite insurance markets being immature in China and ASEAN countries, Chinese insurers have already started to invest in properties. Considering their massive asset sizes, major Chinese insurers have vast room to acquire property assets in their portfolios, and a portion of Chinese insurers have already become active in property investment.

On the other hand, insurers in relatively matured markets such as Taiwan and South Korea have long been active in property investment, both domestically and overseas.

Though insurance markets in most Asian countries are still small in size (Chart-2), they are growing rapidly, which is far different from the conditions in Japan (Chart-4).

Asian insurers have never been noted to acquire Japanese property assets, however, quite a few of them have already been proactive in property investment and have intentions to expand their overseas property portfolios. It is highly likely that Asian insurers will actively invest in Japanese properties in the near future on the back of their increasing assets under management boosted by

the growing insurance markets.



Source: Tomiichi Hiraga, "アジア生命保険市場の動向・変化と今後の展望" NLI Research Institute Letter, Jul. 7, 2015

* This report includes data from various sources and NLI Research Institute does not guarantee the accuracy and reliability. In addition, this report is intended only for providing information, and the opinions and forecasts are not intended to make or break any contracts.