Internationalization of Japan’s property markets and the FSA’s Better Market Initiative

Financial Services Agency
Real Estate Investment Forum TOKYO
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Structural changes and recent developments in Japan’s real estate market

- Changes in the pricing mechanism (Widespread use of capitalization method)
- Shift from corporate finance to asset finance (An increase in real estate funds and non-recourse loans)

Real estate becomes a type of financial products
Recent trend brought about by the structural changes

- Strengthened linkage between the real estate market and the financial markets
- Greater integration of domestic and overseas markets
- Growing inflow of risk money as a result of the widespread use of securitization

The effect of the global financial market turmoil has spilled over to Japan’s real estate market. Investment funds and financial firms, particularly foreign ones, accelerated the withdrawal of funds.
FSA’s actions

- Monitoring the situation of the real estate market
- Ensuring that due diligence is taken, adequate disclosure is made, and conflicts of interest are avoided by market participants
- Verifying the risk management practices of the banks

The FSA never instructs or urges financial firms to reduce or restrain exposure to the real estate sector.
(1) Creating reliable and vibrant markets

(2) Putting in place a business environment that vitalizes the financial services industry and promotes competition

(3) Improving the regulatory environment (“Better Regulation”)

(4) Improving the broader environment surrounding the markets
(1) Creating reliable and vibrant markets

- Making transactions among professionals more vibrant
- Expanding the scope of disclosure in English
- Diversification of ETFs and J-REITs
- Establishment of a framework for alliances between stock and commodity exchanges
(2) Putting in place a business environment that vitalizes the financial services industry and promotes competition

- Relaxing of firewall regulations
- The scope of businesses permitted to banking and insurance groups will be broadened
  - Permits banks and insurance companies to engage in emissions trading
  - Permits subsidiaries of banks and insurance companies to engage in Islamic finance
- Minimizing the PE risk (double taxation risk for offshore funds)
(3) Improving the regulatory environment ("Better Regulation")

- Trying to share key principles and enhance dialogue with the industry
- Striving to enhance transparency and predictability of regulation and supervision
- Strengthening cooperation with fellow authorities abroad
- Close monitoring and accurate analysis of market developments for effective regulatory and supervisory response
- Improvement of the skills of the FSA staff
(4) Improving the broader environment surrounding the markets

- Developing and accumulating internationally competitive human resources in the areas of finance, law, and accounting

- Enhancing urban functions to levels suitable for an international financial center
  - Development plan to enhance Japan’s role as an international financial center
  - Two areas in Tokyo have been designated as priority areas