

## Tokyu Land Corporation

### From Tokyo's pulsing heart, Shibuya, to Manhattan: TLC eyes global expansion

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Hitoshi Uemura, Vice Chairman of Tokyu Land Corporation

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With a diversified portfolio of services, Tokyu Land Corporation—one of the leading real estate companies in Japan—is reshaping the urban face of Tokyo with a long-term vision beyond 2020 and participating in the landmark redevelopment of 425 Park Avenue—a multipurpose building in the Plaza District of Manhattan

#### **To what extent are global economic events and local developments such as Abenomics and the 2020 Olympic Games impacting the real estate market?**

We can see some positive effects from Abenomics on the business of Tokyu Land Corporation (TLC), especially the so called “inbound effect” in terms of foreign tourists. Abenomics is, of course, a set of domestic Japanese economic policies, but it influences the currency markets and therefore has a global effect. As TLC owns hotels and commercial facilities, Japan’s economic growth and the impact of the booming tourism industry driven by Abenomics definitely have positive effects on our market. As for the 2020 Tokyo Olympic Games, a new national stadium is being built near our corporate headquarters and several more construction projects are ongoing in Tokyo.

The construction of such facilities will be completed when the games start. Therefore, I expect the Japanese economy to slow down somewhat after the event. Until 2020, I believe the economy will grow at a steady pace. TLC believes that we were able to survive the global financial crisis by avoiding excessive development risk.

TLC currently has four major lines of businesses: urban development, residential development, wellness business, and overseas business activity. We have experienced steady growth in each of these businesses, and have committed to further expansion in advance of the 2020 Tokyo Olympic and Paralympic Games. TLC was also a pioneer in Japan's real estate securitization sector, which helped solidify our current strong financial situation. At present, we have several new development projects in Tokyo, but we are careful to strike a balance between development risk and our real estate leasing business, so that the company can maximize profits without excessive development exposure. We have no desire to participate in a transitory development boom in the run-up to the 2020 Tokyo Olympic Games; rather, we prefer to engage in efficient investment over a long-term horizon.

It is important to note that, after the 2020 Tokyo Olympics, there is a risk that demand for new development will dwindle. Further, as our society ages, it seems obvious that domestic demand for real estate will shrink in the mid to long term. Therefore, we are looking to overseas markets, where we foresee stable and continuous growth in real estate, and we will continue to expand our business in the US and Indonesia.

### **What is your assessment of the domestic and internal economy?**

My view is that the domestic and international economies will generally enjoy stable growth over the long term. There are, of course, some well-known warning signs in the domestic market due to Japan's aging society, decreasing work force and caution toward the post-Olympics economy. But government, private industry and the Japanese people are working together to address these issues. Overseas, there remain risks in the form of terrorism, political uncertainty stemming from the new U.S. administration and the result of the British general election, for example. We are also carefully monitoring geopolitical issues closer to home, such as the frequent missile launches and tests being performed by North Korea. We shall keep a watchful eye on these events, but our optimism is undeterred.

### **How would you describe Tokyo Fudosan Holdings Group and its core company, Tokyu Land Corporation?**

Tokyu Fudosan Holdings Group is a comprehensive real estate company group, consisting of more than 100 different companies. These comprise several of Tokyu's premier real estate companies, and their subsidiaries and affiliates. The group's genesis was the desire to create Japan's ideal town, 'Den-en Chofu', in 1923. This was one of the most popular high-end residential areas in Japan at that time. Tokyu Land Corporation was officially established in 1953, and acts as the core company of the group.

Unlike other Japanese real estate companies, TLC's unique characteristic is that Tokyu Group companies promote businesses other than real estate. These include management of resort facilities, senior housing and membership sports clubs, for example. We also have Tokyu Hands, a retailer which deals with lifestyle goods, as one of our core group companies. TLC's strength is to provide customers with a wide variety of services depending upon the customer's life stages, by staying in touch with the customers, tracking their needs from school days until after retirement.

## **What does TLC bring to the table as a partner to foreign investors?**

In many cases, we have bought back Japanese properties that American private equity funds had acquired in the Japanese market, so we have some experience working with overseas investors. Like many Japanese developers, we often do not sell our developments once they are complete. However, we are always open to conversations, and if a foreign investor would like to team up with us on a third-party deal we would be open to considering that as well.

## **Can you tell us more about your domestic development projects?**

Our domestic development is currently focused on some large redevelopment projects in our hometown of Shibuya. TLC is working along with Tokyu Corporation on four large redevelopments around Shibuya Station. TLC manages Dogenzaka 1-chome Station Front District Urban Redevelopment (‘Dogenzaka’) and Shibuya Station Sakuragaoka Exit District Redevelopment (‘Sakuragaoka’).

In the Dogenzaka project, a high grade office space is planned for the building’s higher floors, and retail facilities are planned for the lower and middle floors, and these spaces are being designed in a manner that will attract tenants and customers from around the world. A portion of the first floor will house a new regional bus terminal, servicing various local bus lines and an airport shuttle, which will improve access to Haneda and hopefully bring more foreign visitors and local people to the town of Shibuya. The project will provide service facilities aimed at overseas companies and people, such as a multilingual tourist information center and support facilities for foreign companies entering into the Japanese market.

Sakuragaoka is positioned to be the most important project among on-going redevelopment projects around Shibuya Station. As a part of this redevelopment, we will complete an upgrade of the urban infrastructure, and provide urban services through an employment, residential and entertainment complex. The complex is designed to be friendly to our foreign residents and visitors, equipped with important “life support” facilities like multilingual medical services, kids’ support and serviced apartments. As a result of our reorganization of the subject land area, it becomes possible to create a handicapped-accessible pedestrian overpass to facilitate foot traffic between Shibuya Station and adjacent residential areas, with a greater level of safety. And in order to grow a strong Shibuya-based business sector, support facilities for startups will be created. All of these improvements are designed to enhance the charm of Shibuya City as a whole.

Shibuya Station, which is said to serve about three million passengers on average each day through eight different JR and subway lines, is one of the biggest and busiest terminals in Japan, and indeed in the world. One of Tokyo’s busiest and most popular rail lines is the Ginza Line, and our redevelopment plan there will relocate the Ginza Line and the Saikyo Line, and restructure the function of the town. We all hope that Shibuya will attract more attention as the 2020 Tokyo Olympic Games approach, as a base of easy access to both the Tokyo Bay area and the New National Stadium. Shibuya is a very special place for us, as it is the site where our company was originally founded. According to a recent survey by the Tokyo Metropolitan Government, Shibuya was the number one city for foreign tourists, among the various cities comprising the Tokyo megalopolis. Perhaps you recall seeing images of large groups of young people enjoying the World Cup Soccer Games or Halloween festivities? Shibuya’s image as the hub of Japan’s information industry was bolstered during the closing ceremony of the Rio de Janeiro Olympic Games, in which Japan’s Prime Minister Shinzo Abe dressed as Super Mario and jumped off a clay pipe. Through our redevelopment projects, we will continue to enhance the positive image of Shibuya worldwide.

TLC has other projects in the Tokyo area as well. We are currently engaged in a project in the Hamamatsucho and Takeshiba neighborhoods, near Haneda airport, which will further promote the internationalization of Tokyo. This project has been named an Urban Renaissance Redevelopment Project within Japan’s National Strategic Special Zones, promoted by the national government. This project aims to establish an international business center in the area where creative industries and the metropolitan government cooperate to promote trade and industry. As with our Shibuya-based redevelopments, this project will promote an international lifestyle through such amenities as serviced apartments, multilingual child support facilities, and other services aimed at the global community.

## **What projects do you have underway in the US?**

Right now we are engaged in the 425 Park Avenue project in New York, which we were introduced to by our frequent partner, GreenOak Real Estate Advisors. We had a strong existing business relationship with GreenOak, and they brought this investment opportunity to us. Given the sizable equity commitment this project required, our participation was indeed a watershed moment in the history of our US business.

One of the major reasons we agreed to participate in this project was that it is very rare for properties in this location to come to market. I was convinced that if we missed the chance to invest, we would never see another opportunity like this again in my lifetime. The second reason was our relationship with the partners. The other partner in this project, the developer L&L Holding Company, has great expertise and a passion for this project. They are well known as a major developer in New York, and they are truly experts in the New York market. There are many restrictions in New York which, generally speaking, make redevelopment difficult, and I felt that their passion was essential to the success of this project, which is the first full-block redevelopment on Park Avenue in 50 years.

Our market survey also proved to us that the Midtown market wanted a new office building on Park Avenue. This result was not entirely surprising, since there had been no new office buildings constructed in this part of New York in the last 30 years. Essentially, the key driving factors behind our investment were the unique location and our confidence in our partners.

425 Park Avenue is by far our largest deal in the US to date. However, we have also been active in building a portfolio of smaller investments throughout the country. Currently, we have a portfolio of multifamily and office investments in New York, California and Texas, ranging from stabilized, income producing properties to development projects. We have a number of high quality deals in our pipeline, and in fact we expect to close on two new investments before the summer is out. Our strategic focus, going forward, is to seek out value-add type investments in major markets, in partnership with strong local operators, with a focus on office and residential properties. We continue to build our portfolio with an eye toward establishing a sound track record and a reputation as a trusted and capable partner.

## **Which sectors of the Japanese real estate market would you identify as being of interest to American investors?**

There are really two types of real estate investors coming into Japan. The first are those who want to buy bigger, newer, and high-priced office and retail properties in great locations. The second are those who are pursuing smaller, less expensive properties, but which can generate higher values with renovations. These investors are also interested in acquiring vacant lots once the tenants have vacated and the existing buildings have been demolished.

It is difficult to acquire properties from the first type of investors for two reasons. Firstly, REITs often tend to buy these properties, and will pay very high prices, so it can be difficult to compete against them. Secondly, it is possible that the owners of such properties, namely large real estate developers such as ourselves (TLC), simply do not want to sell. Such owners would rather transfer the properties to their affiliated REITs. However, the second type of investor I mentioned has many opportunities for investment in Japan. For example, Blackstone, Fortress and several other private equity funds have been active in this kind of acquisition.

## **Do you have any examples of such property transactions, either by your company or others?**

TLC has not yet sold such properties; however, some other companies have engaged in such transactions, including some very expensive ones exceeding 100 billion yen. However, in my over-30 years real estate career, I have seen only a handful of these transactions.

## **What was the performance of TLC for the last fiscal year and what are the strategic objectives that TLC wants to achieve in the next few years?**

The company announced its mid-term plan as of May 11, 2017, which covers the period from 2017 through 2020. Our major emphases are the Shibuya Station redevelopment projects, which are collectively said to be a once-in-a-century event, and to generate profit through what we call “Recycling Generation Type New Town Creation,” where we aim to address issues facing our rapidly aging society in Japan through a combination of for-sale condominium developments and senior housing; an expansion of our real estate investments in U.S., where further sustained economic growth is expected; and our developments in Indonesia. The company plans to increase its operating profit to 93 billion yen, which is a 30% increase over FY2016.

**Does TLC have any plans to establish strategic alliances with foreign companies in Japan?**

We are open to negotiating a strategic alliance in order to invest further in Japan, if it’s a good fit for us. In the past, for example, we have worked with various investment banks from the US and Europe on projects here.

**How important it is for TLC to expand into the overseas market to attain higher growth?**

Overseas expansion is a very important priority for the Tokyu Group real estate companies, and TLC in particular. We would like to grow our existing investment activity in Asia and the US. In Asia, we are already active in Indonesia and China, and we are looking into opportunities in Malaysia and India. We are also researching other Asian emerging markets. If we find good partners with good investment opportunities, we will be more than happy to work with them.

The company started its business in Indonesia back in 1975, when it was a very different place than it is now. At that time, Mr. Noboru Goto, Chairman of the Board of Tokyu Corporation (our parent company), advocated a “Pan-Pacific Expansion Plan,” and TLC followed that plan to make inroads into Guam, Palau and Indonesia. We withdrew from Guam some time ago, but we still run a beautiful resort hotel in Palau.

In Indonesia, we teamed up with P.T. Haka Group to enter that market. Initially, TLC was just a minor home builder there, selling about 100 detached houses per year. Eventually, though, we grew in the Indonesian market, and to date we have sold more than 4,500 detached houses in the country.

In recent years, due to heavy traffic in Jakarta’s CBD, it has become fashionable for local high net worth individuals to own condominiums in the heart of the city to avoid the congestion. Since the area’s infrastructure development projects, including subway lines and freeways, went well, we believed that more demand would come in search of higher quality housing. Therefore, we are promoting the development and sales of condominiums in Jakarta. We currently have two large projects in Indonesia, BSD and Simatupang, and there are more than 3,500 units in our pipeline right now. TLC has built our presence in the local market through Japanese-style condo sales, including showing customers a ‘model-room’ where they can visualize an after-purchase lifestyle. By bringing a new experience to home buying and home ownership in Indonesia, TLC has firmly established our condo brand, BRANZ, in the country. Indonesia is one of the largest and most politically-stable countries in ASEAN, and we remain charmed by its promising future. Our work in Indonesia clearly shows how both sides can benefit from cross-border business activity.

**90% of Japanese real estate investment remains in the domestic market. Do you have any explanation as to why Japanese real estate companies are losing market share against South Korean or Chinese companies in the US market?**

I personally believe that the decision-making process for investment by a Japanese company tends to be slower, compared to that of Chinese or Korean companies. This is one reason why Japanese companies’ growth outside of Japan looks slow or negative. At TLC, we have made a strong effort to streamline that process so that we can more effectively compete in foreign markets, against local players and other global investors. We are equipping ourselves to make quicker investment decisions if an investment seems suitable. Sometimes it can be rather difficult to find a good investment opportunity. However, when we find one, we are now in a position to pursue off-market deals and participate in auctions actively to execute on good investment opportunities.

## **What is your personal vision and where would you like to see TLC in the future?**

In order for us to grow and cope with globalization, and subsequently become a company successfully operating in a variety of global markets, our Overseas Division bears an important role for the company. We selected our markets from two perspectives; whether the subject market belongs to the developed markets, or is an emerging market. I would like to expand our overseas activities as the driver of our future growth. We would like to grow this overseas business, driving value for our company, through investment, development and investment management activities in the US market, where sustained economic growth is expected, and emerging markets in Southeast Asia where further population and GDP growth are expected.