

Feature Articles

This month's focus: Rethinking Real Estate: Markets, J-REITs, and Firm Value

Is Real Estate Investment Analysis an Imitation of Securities Investment Analysis?

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Real estate investment analysis is sometimes considered to be a mere imitation of securities investment analysis, or rather a subset subsumed within it. However, just as mathematics alone cannot explain the economy, and economics alone cannot explain financial markets, securities investment analysis alone cannot adequately analyze real estate investment. Securities investment analysis has developed into a coherent body of theory and methods premised on the abundance of financial market data, but because comparable data are not available for real estate investment, the methods of securities analysis cannot simply be transplanted to real estate investment. Furthermore, while securities analysis treats cash flow as a sufficient statistic and abstracts away the complexities of corporate management, real estate analysis must account for details as granular as the underlying product markets and the specifics of income and expense contracts. An examination of the consolidated balance sheet of Japanese households, corporations, and government shows that financial assets are derivative claims backed by national wealth, which consists primarily of real estate. Thus, real estate analysis is, if anything, the foundation of securities investment analysis.

Does the Consumer Price Index Capture Real Estate Prices? Four Decades of Tokyo

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A consumer price index targets a utility-constant cost-of-living index, and the price it should attach to housing is the price of one period of shelter services. However, a dwelling has two faces at once: a durable consumption good delivering that service flow, and an investment asset whose value is the discounted stream of future rents. Measured through the second face, asset-market revaluation enters the price index.

This paper sets out the Konüs framework, the Diewert user-cost identity, and the four competing price concepts for owner-occupied housing, and then examines four decades of Tokyo data through these concepts.

From 1986 to 2025, the constant-quality housing price index rose by 141 percent, the new-contract rent index by 42 percent, the Tokyo consumer price index by 28 percent, and the CPI private-rent component by only 15 percent; the latter has still not regained its 1994 peak.

Measuring imputed rent using new-contract rents would have raised Tokyo's 2025 inflation rate from 2.98 percent to 4.04 percent.

The choice of measurement method is not neutral: any resulting error passes directly into the real interest rate used by analysts as a discount rate.

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J-REIT Market after 25 Years: From Stable Yield to Steady Growth

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It has been 25 years since the J-REIT market began in September 2001. Over 24 years (2002–2025), J-REITs have offered strong performance with limited volatility compared with TOPIX, and the low beta demonstrated over the long term makes them a good option for diversified investment portfolios. J-REITs also have a presence as major buyers in the real estate market. J-REIT market growth and activity provide returns not only for investors but also benefits for the real estate market. J-REITs were previously only seen as vehicles for steady yields but now they are beginning to offer investors stable growth prospects as well. We believe J-REITs have room to evolve beyond their traditional roles as alternative investments and establish themselves as a standalone asset class and equity product. This report discusses the issues they need to overcome to make this happen.

Activist Investors and Real Estate

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Despite rising interest rates, Japan's real estate market remains active. Under favorable market conditions, there has been an increase in reports regarding real estate sales involving activist investors. These activists often propose that companies sell their real estate holdings to improve capital efficiency. As a result, some media reports take a critical tone, suggesting that activists are merely seeking to profit from the sale of corporate real estate assets.

However, in reality, there are other stakeholders besides activists, such as corporate management and general shareholders. Activists are not necessarily able to make decisions regarding the sale of real estate on their own.

Real estate sales often emerge as the outcome of reconciling the interests of various parties through dialogue between activists and corporate management.

In this article, we explain corporate attitudes toward real estate ownership and dialogue with activists, and also examine the impact of activist investors on Japan's real estate market.