

# The Security Analysts Association of Japan

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Professional Standards and Advocacy  
Association for Investment Management and Research  
P.O. Box 3668  
Charlottesville, Virginia 22903

Re: GIPS Real Estate Provisions

Dear Sir/Madam,

The Security Analysts Association of Japan (SAAJ) wishes to thank the Association for Investment Management and Research (AIMR) for this opportunity to comment on the proposed GIPS Real Estate Provisions.

In addition to internal discussions within the SAAJ-IPS Committee, we gathered information and opinions from various organizations including the Japanese Association of Real Estate Appraisal and the Investment Trust Association of Japan as well as perceived real estate managers such as trust banks and life insurers. Currently in Japan, real estate investments are offered either through private direct investment portfolios for pension plan sponsors and/or corporations or real estate investment trusts (REITs). We understand that listed REITs are exempt from the scope of the provisions. Our comments hereunder more or less reflect those of the above-mentioned parties but please note that they may express their own comments separately.

First of all, we appreciate AIMR's efforts to develop real estate provisions in the GIPS standards, and believe that the proposed provisions are worth implementing in the Japanese marketplace. Our SAAJ-IPS currently include a few real estate provisions which might be less rigorous and broad than those proposed for GIPS this time, and we are prepared to replace them with the GIPS provisions once determined. Nonetheless, during the course of discussions, we feel it necessary to raise several issues surrounding real estate investment in Japan.

Although recognizing the need for frequent appraisal by independent appraisers, such may not

become readily accepted until end-investors evaluate and acknowledge the benefit vs. the increased cost. Internal valuation, up to four times a year, may not impose a serious problem for managers but getting “fair” market value poses an issue. Capital gains from a sale at a future date has long been the most preeminent factor for real estate acquisition in Japan, and many managers may continue to find market value far from “fair” value until the market fully digests and is ready for a pricing mechanism such as the discounted cash flow method.

Regulations are rather rigorous for listed REITs but not for private real estate investments. Notably, some regulations on valuation and/or disclosure are different from the requirements proposed in the provisions.

Overall, given the issues raised above, it may take time for the market to assimilate itself with what is required in the provisions, and we deem timing is the most critical determinant: We therefore propose that the provisions be implemented in the GIPS standard no earlier than January 1, 2005.

Should AIMR have any questions on our comments, please contact Ms. Naoko Mori at +81-3-3666-1515 or [ips@saa.or.jp](mailto:ips@saa.or.jp).

Sincerely yours,

Kiyoto Hagiwara  
Executive Managing Director  
The Security Analysts Association of Japan