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JAPANESE PUSHING UP PRICES OF U.S. COMMERCIAL PROPERTY

By ALBERT SCARDINO

Japanese investors have become major players in key real estate markets in the United States, snapping up hotels at Waikiki and stepping over each other to grab skyscrapers from Los Angeles to New York City.

In the process, according to consultants, analysts and building owners, the Japanese have forced up prices for commercial property in many large cities, just as a glut of new projects was driving the real estate market into a recession.

In New York and other cities, the high prices they have paid will lead to a sharp rise in occupancy costs for tenants, as landlords pass on real estate tax increases brought about by higher values. A More Significant Trend

But the run-up in prices may be nothing more than a temporary distraction from a more significant investment trend, according to analysts and brokers.

So far, the changes have come about from the decisions of a handful of privately held companies willing to pay premium prices to invest swelling cash reserves quickly. Only beginning to enter the market in a big way are the more conservative trust banks and life insurance companies that manage Japan's huge pension funds. These investors, the analysts say, will be less aggressive in their bids, but more far-reaching in the role they will play, forming ambitious long-term joint ventures with American partners and expanding into smaller markets throughout the United States.

"We are in the beginning of an international movement of money of historic proportions, something on the scale of the Marshall Plan after World War II or the British influence after the First World War," said Jon C. Minikes, a partner at Jones Lang Wootton, an international real estate consulting firm. Besides real estate, the Japanese have become major investors in stocks, bonds and artwork in the United States.

Mr. Minikes expects the Japanese influence on the real estate market to be at least as strong as it has already been on the market for United States Government securities. Heavy Japanese buying of Treasury bills is widely credited with helping to drive down interest rates dramatically since 1984.

At least for the moment, the Japanese interest in properties here is being driven by the sharp rise of the yen - up more than a third against the dollar in the last 18 months.

"Real estate in the United States seems like a bargain," said Jack A. Shaffer, who, as senior vice president of the Sonnenblick Goldman Corporation, a mortgage broker and consulting company, has specialized in Japanese investment in real estate.

And the big new players - the trust banks and insurers - have enormous sums to invest. Just the pension funds that they manage totaled $650 billion in 1985, Mr. Minikes says.

"They control much more money than the private companies," he said. "Nippon Life Insurance Company, for example, has more life insurance in force than the Prudential, Metropolitan and the Equitable - the three largest in the United States - combined. They have to invest those premiums. They may pay slightly more than a local bidder would offer, 3 or 4 percent, but not 30 percent above the market the way some of the bids have been for office towers in Manhattan this year."

To avoid losing their way in the market, many Japanese institutional investors are seeking local partners. Nippon Life, for instance, has joint-venture projects with the Equitable Life Assurance Society of the United States in New York, Los Angeles and Dallas.

Mr. Minikes said he expected the major Japanese industrial and institutional investors to have a stabilizing effect on the market, by supplying capital to American partners as part of a long-term relationship. Kumagai Gumi and Zeckendorf

In the construction industry, for example, Sonnenblick Goldman helped bring together the Kumagai Gumi Company, Japan's largest construction organization, and William Zeckendorf Jr., a New York developer.

In the last 18 months, Kumagai, through a subsidiary, the KG Land Company, has invested more than $1 billion as a partner in development projects in New York managed by Mr. Zeckendorf's company. Kumagai has not yet sought to take on the role of construction manager for any of the Zeckendorf projects, but it hopes to move in that direction eventually, according to Richard Katano, manager of Kumagai's operations in this country.

Although Japanese investment in the American market in 1986 may reach $6 billion, more than triple that of 1985, it will not by itself pull the real estate industry out of its nationwide slump. According to the United States Department of Commerce, Japanese investors have already surpassed British companies as the largest foreign owners of real estate, but they have not yet touched the markets in the suburbs and smaller cities.

So far, attention has fallen on such record-setting deals as the purchase last week of the Exxon headquarters building by Mitsui Fudosan Inc. for $610 million, which real estate analysts said was the most ever paid for a single building in New York, and the acquisition of the Tiffany & Company building last month by the Dai-Ichi Real Estate Company for $94 million, the highest price per square foot of retail space in the country, according to industry analysts.

''These have been very visible purchases of well-known buildings in major cities,'' said Arthur M. Mitchell 3d, a New York lawyer who specializes in Japanese investment in real estate. ''The United States is the biggest real estate market in the world, and the Japanese hold a tiny fraction of it, less than 1 percent.''

More such blockbuster announcements are on the way. ''I have three on my desk right now that should close in January,'' Mr. Mitchell said.

The sales this fall have brought owners far more than they would have received without the Japanese bidders. When Capital Cities/ABC Inc. auctioned off the network's headquarters on the

Avenue of the Americas at 53d Street in October, the high bid of $175 million came from the Shuwa Corporation.

According to brokers who participated in the sale, the next best offer, $137 million, came from another Japanese company. "There were five other bids, all of them just over or under $100 million," one broker said.

The price left the local real estate community agog. Shuwa was delighted. As part of the deal, ABC agreed to lease the building for three years at a rate that gave Shuwa an annual return of 8 percent on its investment. That was more than double what Shuwa could expect from a similar investment in real estate in Tokyo.

"For one thing, very little real estate ever changes hands in Japan," Mr. Shaffer said. "The demand is so great, particularly for sites on which to build, that values go up 50 percent a year." Because land prices are so high, land often represents three-fourths of the cost of a development project, compared to one-fourth or less in the United States.

"Most Japanese real estate investors believe that the value of real estate will never decline," said Tatsuo Wakabayashi, manager of the real estate advisory division of the Mitsubishi Trust and Banking Corporation. "Japan is smaller than California but has five times as many people. Demand keeps prices rising." Lower Returns Accepted

Because of the rapid escalation in values, owners of commercial properties in Tokyo accept lower immediate returns from rent. "Though they seldom sell their property, they can use their buildings as collateral for loans to buy real estate here," Mr. Shaffer said. "And because interest rates are much lower in Japan, they can borrow there to buy here and earn a profit on the rents while they wait for the value to climb."

Thanks in large part to the prices Japanese investors are willing to pay, the values of some properties in New York are now rising as fast as values in Tokyo. After a management buyout of Tiffany & Company from Avon Products, Tiffany in 1985 sold its land and building at the corner of 57th Street and Fifth Avenue to a group of investors from Texas for $66.5 million. Tiffany leased the building back from the investors at a rate that generated a return of 7.5 percent, according to brokers familiar with the transaction.

Dai-Ichi surprised the local real estate community with its $94 million payment last month for the property. Tiffany continues to pay the same rent as before, resulting in a return for the new owners of 5.3 percent, the brokers said.

"We tried to interest some of our Japanese clients in that property when it sold the first time," Mr. Shaffer said. "None of them was interested at $60 or $65 million. How did it go up 40 percent in one year?"

Despite the concentration of Japanese investment so far in California and in the Boston-Washington corridor, real estate analysts expect it to spread throughout the country as the Japanese grow more familiar with smaller markets.

When asked about his company's plans to expand to other parts of the United States, Mr. Wakabayashi of Mitsubishi answered with a question of his own: "Any suggestions?" Astonishment Generated

The trend so far has generated more astonishment than opposition. "Outside of the few people who have been dealing with the Japanese for the last several years, not many people are aware of the magnitude that we are seeing,'' said Timothy K. Hart, a vice president of the Cross & Brown Company, a national real estate bokerage.

The impact on those outside of the immediate transactions will be slow to be felt. Among the first to be affected will be office tenants in buildings purchased at sharply higher prices.

In New York, most office leases allow landlords to pass through increases in property taxes directly to the tenants. Under the city's tax rules, a commercial sale immediately triggers a reappraisal of the property. Although any increase in taxes that results is phased in over five years, tenants in some of the buildings that have been sold this year could see their occupancy costs jump as much as $2 a square foot each year for the next five years, making their total real estate tax bill as high as their rent by 1992.

Though the sales prices will moderate as the Japanese learn to compete, Mr. Hart said, ''There will be some tenants who will be upset by the prices they pay in the meantime.'' REALTY RECORDS Japanese investors have paid high prices for Manhatan buildings. Exxon Building, purchased by Mutsui & Company for $610 million, the most ever for a New York office property. ABC Headquarters, bought by Shuwa Corporation for $175 million, or $365 per square foot, a record for an office building. Tiffany & Company headquarters was bought for $94 million by Da-tchi Real Estate Company, the most ever paid per square foot of retail space in the country. Zeckendorf Towers, at Union Square, of of 11 projects in New York in which a subsidiary of Kumagai Gumi has invested $1.2 billion in partnership with Willion Zeckendorf Jr. The deals make Kumagai the largest Japanese real estate investor in New York.

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