KENSHO INVESTMENT GROUP

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# CEO Insight: Big institutional investors set their sights on real estate

***Japan's "Big Whales" are to invest in real estate to an unprecedented degree - at home and abroad.***

The starting shot has been fired: major institutional investors in Japan have decided to get more involved in real estate than before. The first signal in this direction was sent by the largest life insurer, Japan Post Insurance, and the second-largest trading house, Mitsui & Co. A few weeks ago, the companies announced a joint real estate fund for several 100 billion yen (700 million euros). With assets of 53.4 trillion yen (384 billion euros), Japan Post Insurance is one of the Big Whales of the Japanese financial world. Soon, other heavyweights are likely to announce similar plans and diversify more into real estate.

We are talking about mind-boggling sums here: The four asset giants alone manage aggregate assets of 4,000 billion euros. With an initial target allocation unofficially stated as 4%, around 180 billion euros would be available for real estate. If the ratio were to grow later to the European standard of 10 to 15%, it would be 400 to 600 billion euros. This means that these large investors would have to invest mainly abroad, because Japan's institutional real estate market, with a volume of 300 billion euros, would be too small for them.

If these investors in turn expand their purchases in the domestic market, then more companies and institutions may dispose of real estate. For example, the already ongoing trend of companies such as Dentsu and Toshiba selling their headquarters buildings could intensify. Government-owned buildings are also entering the market - the sale of Otemachi Place in Tokyo is currently underway, with an expected price of 2.5 billion euros. The institutional market is therefore likely to grow strongly in the next few years.

The original go-ahead was given by then-Prime Minister Shinzo Abe who was tragically assassinated on the 8th of July. With great foresight, he called on institutional investors in Japan to invest more heavily in risk capital as early as 2014 - primarily domestic and foreign equities, real estate, and infrastructure such as renewable energy power plants. This was because invested assets could no longer be increased with Japanese government bonds, the standard investment at the time, due to the radical zero interest rate policy of central bank governor Haruhiko Kuroda from April 2013.

Neither the Big Whales nor smaller players were prepared to diversify their assets beyond government bonds, though. Therefore, the institutional players first had to create the technical and organizational conditions for real estate investments. To do this, they recruited top experts from real estate developers such as Mitsui Fudosan and specialists from the investment bank Goldman Sachs and the Development Bank of Japan. On this basis, the first cautious tests began in the market.

Starting in 2016, the first major investors cautiously entered listed real estate investment trusts (J-REITs). Japan Post Bank and the Pension Fund Association (PAL) ventured into privately-held REITs. They were followed by the Government Pension Investment Fund (GPIF) - the world's largest sovereign wealth fund with assets of 197 trillion yen (1,400 billion euros) - and Japan Post Insurance. From 2019, the first asset managers abroad were mandated to invest initially in funds of funds - for a long time only in the USA, and finally in Europe. In this way, important experience was gained.

It is remarkable how far the major investors have come in just eight years. They have installed the necessary processes and built platforms and partner networks. Today, these companies operate worldwide, employ generalists and specialists as asset managers, and pursue a range of strategies. In some cases, foreign investments already outweigh the Japan portfolio. The new joint venture between Japan Post Insurance and Mitsui & Co. is now kicking off the first really big wave. In the next few years, we will then see the first direct investments.

With so many well-funded addresses now setting their sights on Japanese real estate, bidding competition is sure to intensify. After all, the big whales are competing with major foreign investors such as Allianz for the available properties. As a result, yields on residential real estate are likely to fall below today's 3.5% to 3.8%. Given this outlook, it becomes all the more important for investors to build a substantial portfolio through a series of individual transactions. In this way, patient direct investors like us generate added value because a portfolio as an asset achieves a higher market price than the sum of its individual investments.

Conversion rate: 1 euro = 139 yen

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