

The logo for KENSHO features the word "KEN" in blue, followed by a stylized "A" composed of yellow and pink triangles, and "SHO" in blue. The "S" and "H" are stylized with geometric shapes.

KENSHO INVESTMENT CORPORATION

**Real Estate Investment in Japan**

# AGENDA

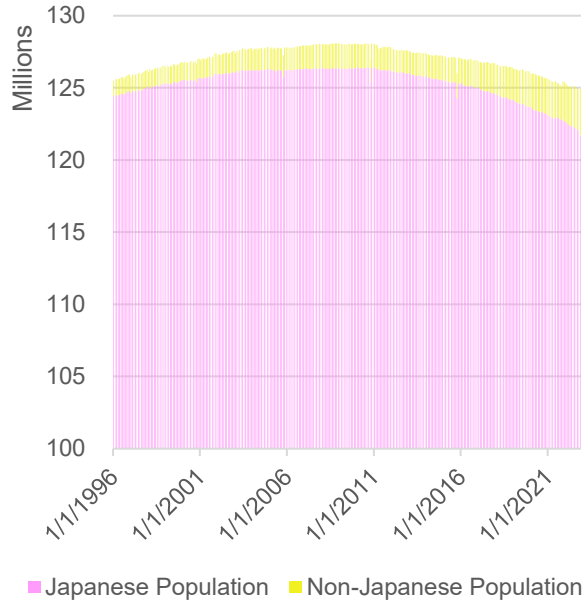
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1. Japan Macro Introduction
2. The Japanese institutional Real Estate Market
3. Investment Regions
  - a. Tokyo
  - b. Greater Tokyo (ex Tokyo)
  - c. Nagoya
  - d. Osaka
  - e. Fukuoka
  - f. Sapporo
  - g. Sendai
  - h. Kobe
  - i. Hiroshima



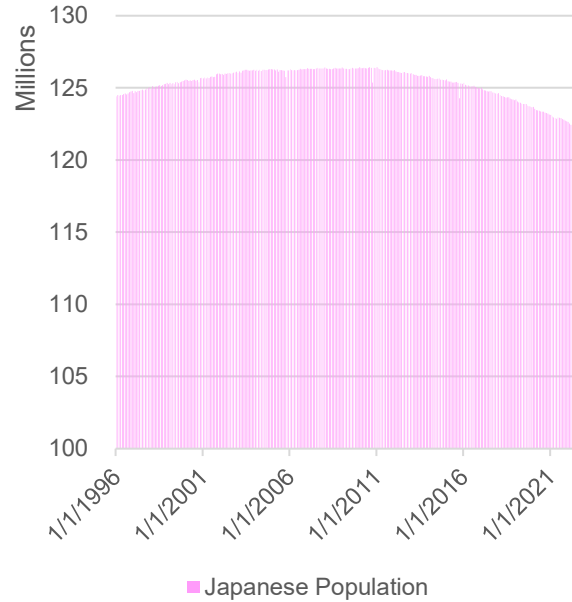
# 1. JAPAN MACRO INTRODUCTION

# POPULATION



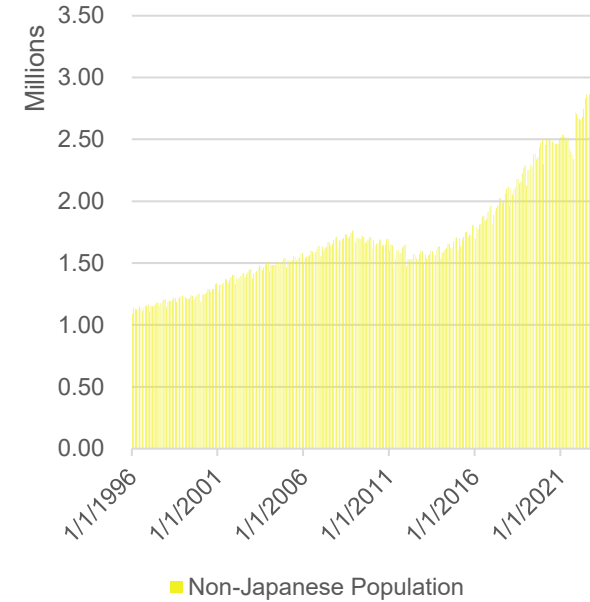
Statistics Bureau of Japan Jan 1<sup>st</sup>, 1996 – Jan 1<sup>st</sup> 2021

**TOTAL POPULATION**  
**125.63M**



Statistics Bureau of Japan Jan 1<sup>st</sup>, 1996 – Jan 1<sup>st</sup> 2021

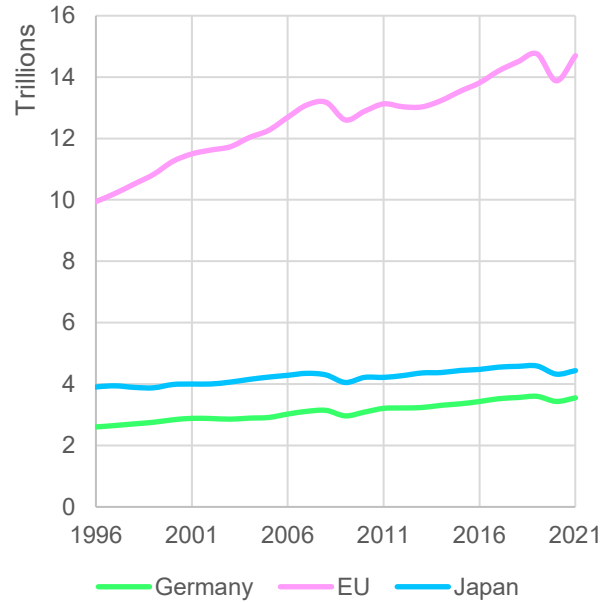
**JAPANESE POPULATION**  
**123.11M**



Statistics Bureau of Japan Jan 1<sup>st</sup>, 1996 – Jan 1<sup>st</sup> 2021

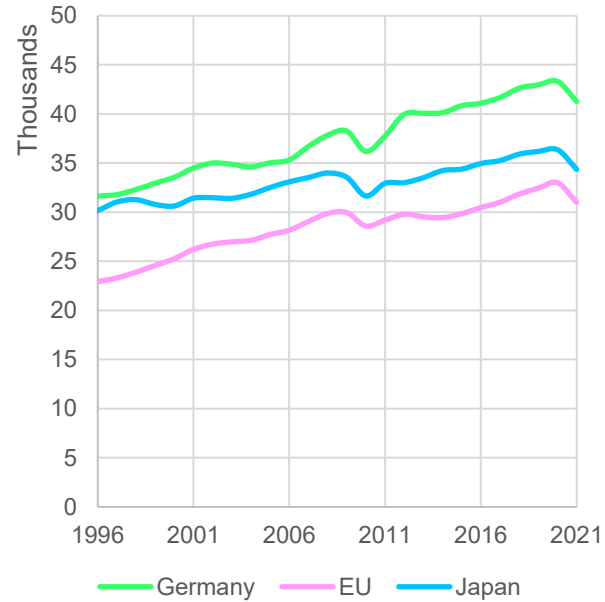
**NON-JAPANESE POPULATION**  
**2.52M**  
(plus 130% over 5 years)

# GDP



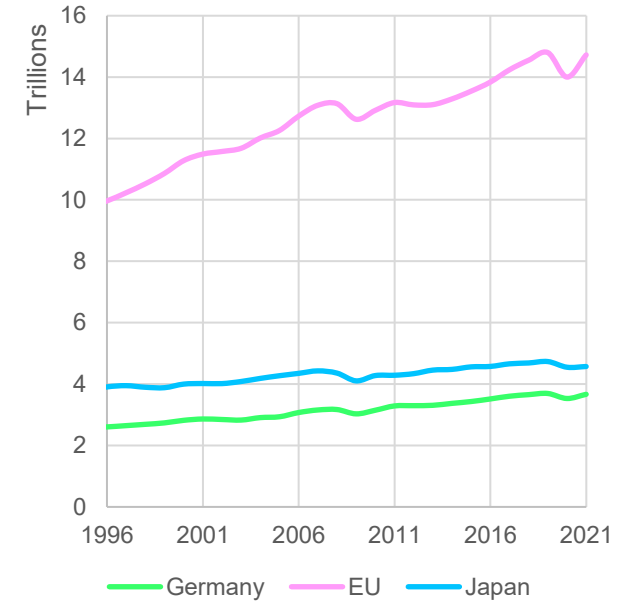
World Bank – updated Oct 2021

**GDP (Constant 2015 USD)**  
**4.32T**



World Bank – updated Oct 2021

**GDP per Capita**  
**(Constant 2015 USD)**  
**34.37K**

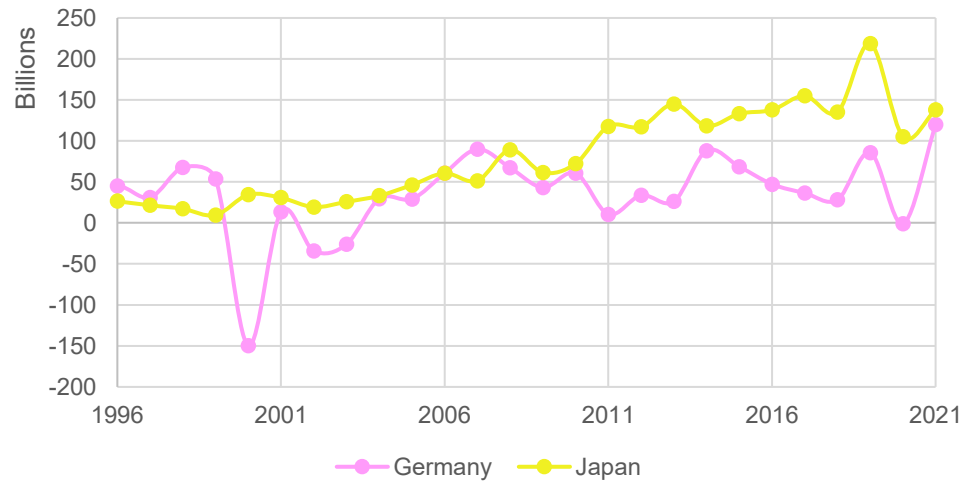


World Bank – updated Oct 2021

**GNI (Constant 2015 USD)**  
**4.69T**

# NET FOREIGN DIRECT INVESTMENT

Net Foreign Investment Over Time  
(Billions USD)

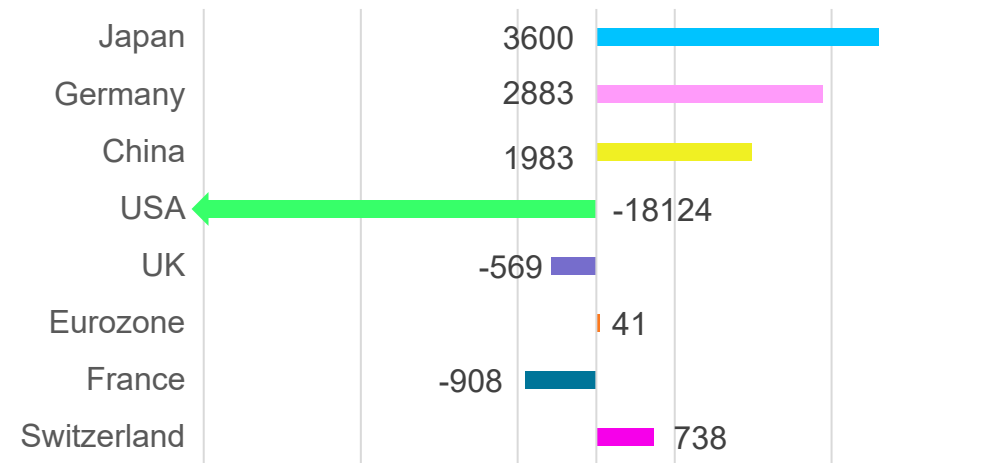


World Bank – Updated Oct 2021 (figures only available in current USD)

Japanese FDI has consistently grown over time, outpacing Germany from around 2011 onwards.

It has also remained positive, unlike Germany which has occasionally become negative in the past.

Net International Investment Position by  
country Dec. 2021 (Billions USD)



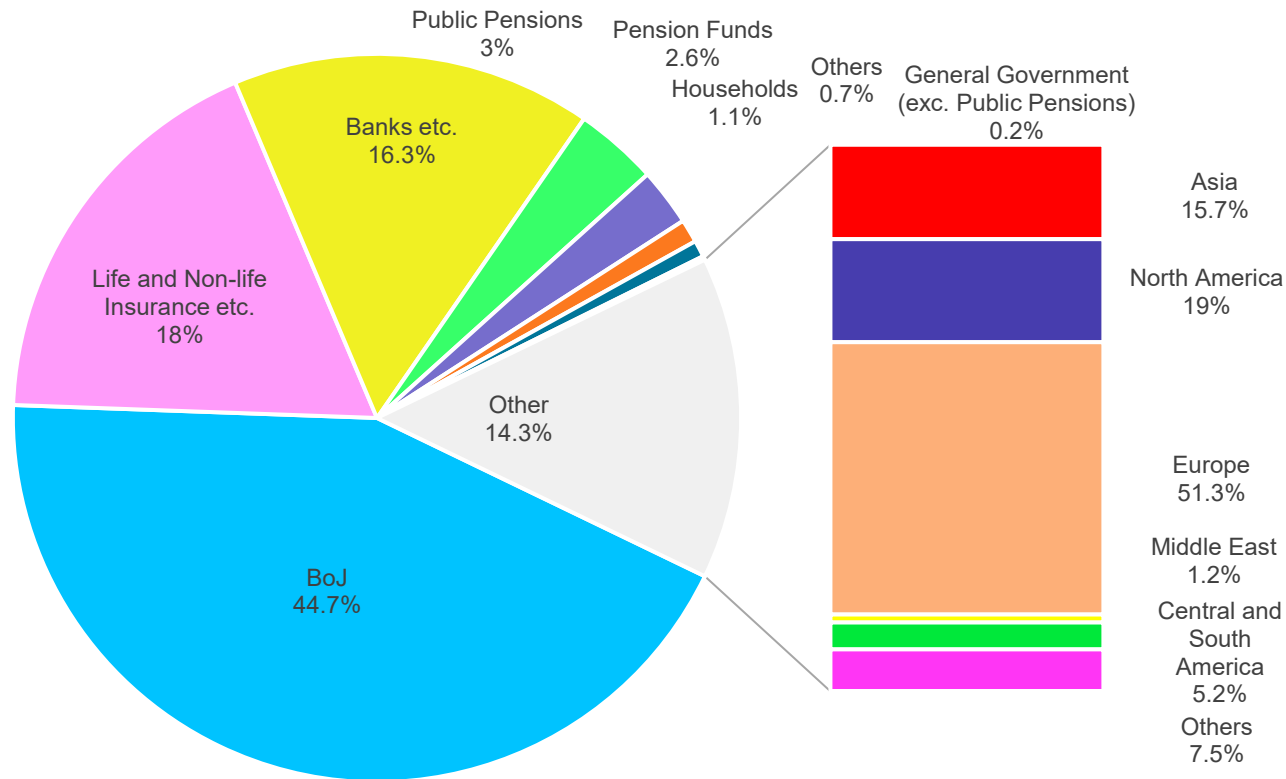
The External Wealth of Nations Database 2022

(<https://www.brookings.edu/research/the-external-wealth-of-nations-database/>)

Japan has the greatest volume of net foreign assets compared to other major economies.

In contrast, the USA is far and away the lowest, with -18 trillion dollars in net foreign assets.

# JAPANESE GOVERNMENT DEBT



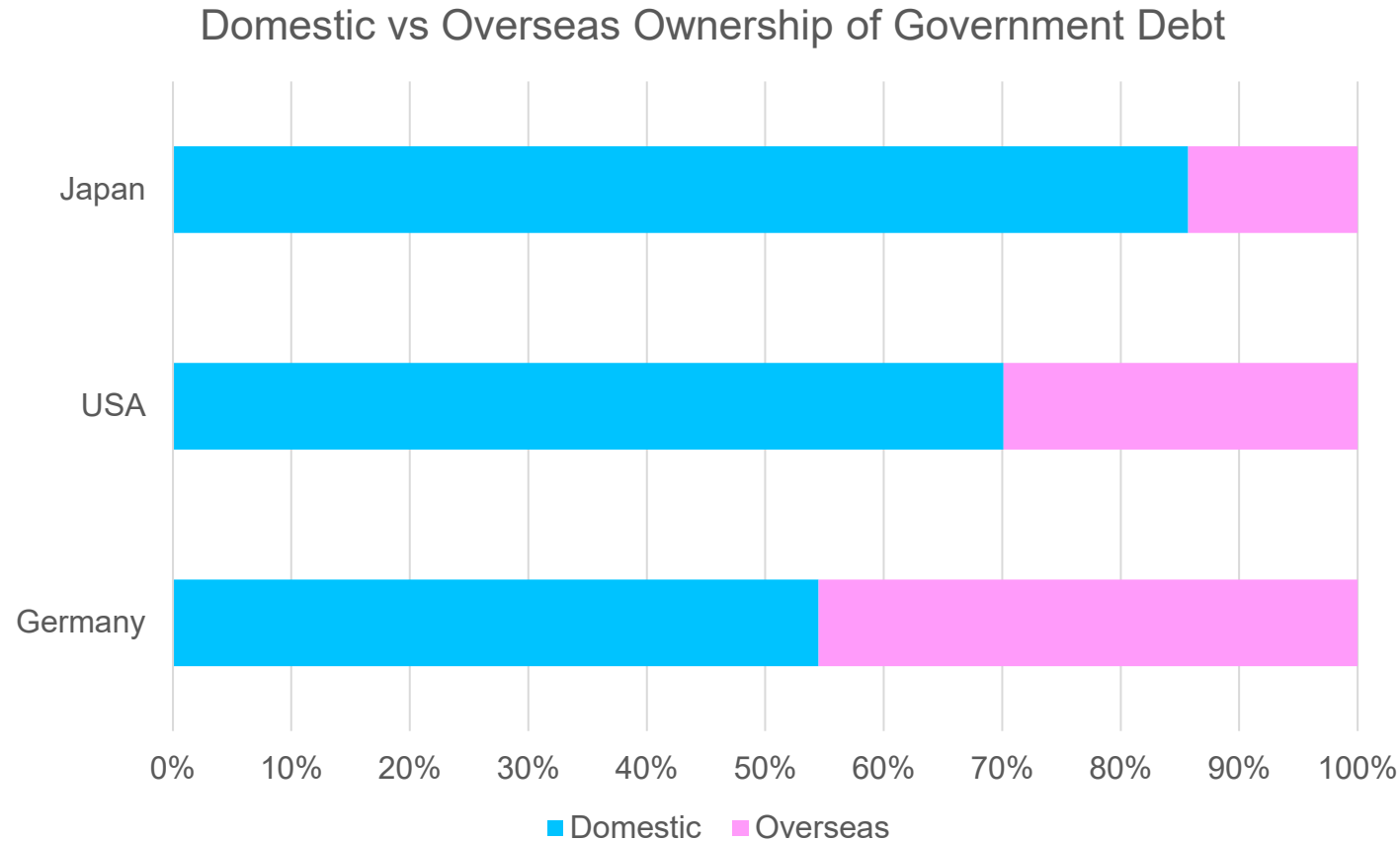
As of December 2021, 85.7% of Japanese national government debt was held by domestic investors, thereof 44.7% was held by the Bank of Japan.

Japanese debt is primarily made up of government bonds (JPY 1,043.1 trillion) and treasury bills (JPY 176.8 trillion)

Source: Ministry of Finance

(Note that the breakdown of bond holdings by region also includes local government bonds in addition to JGBs)

# OWNERSHIP OF GOVERNMENT BONDS

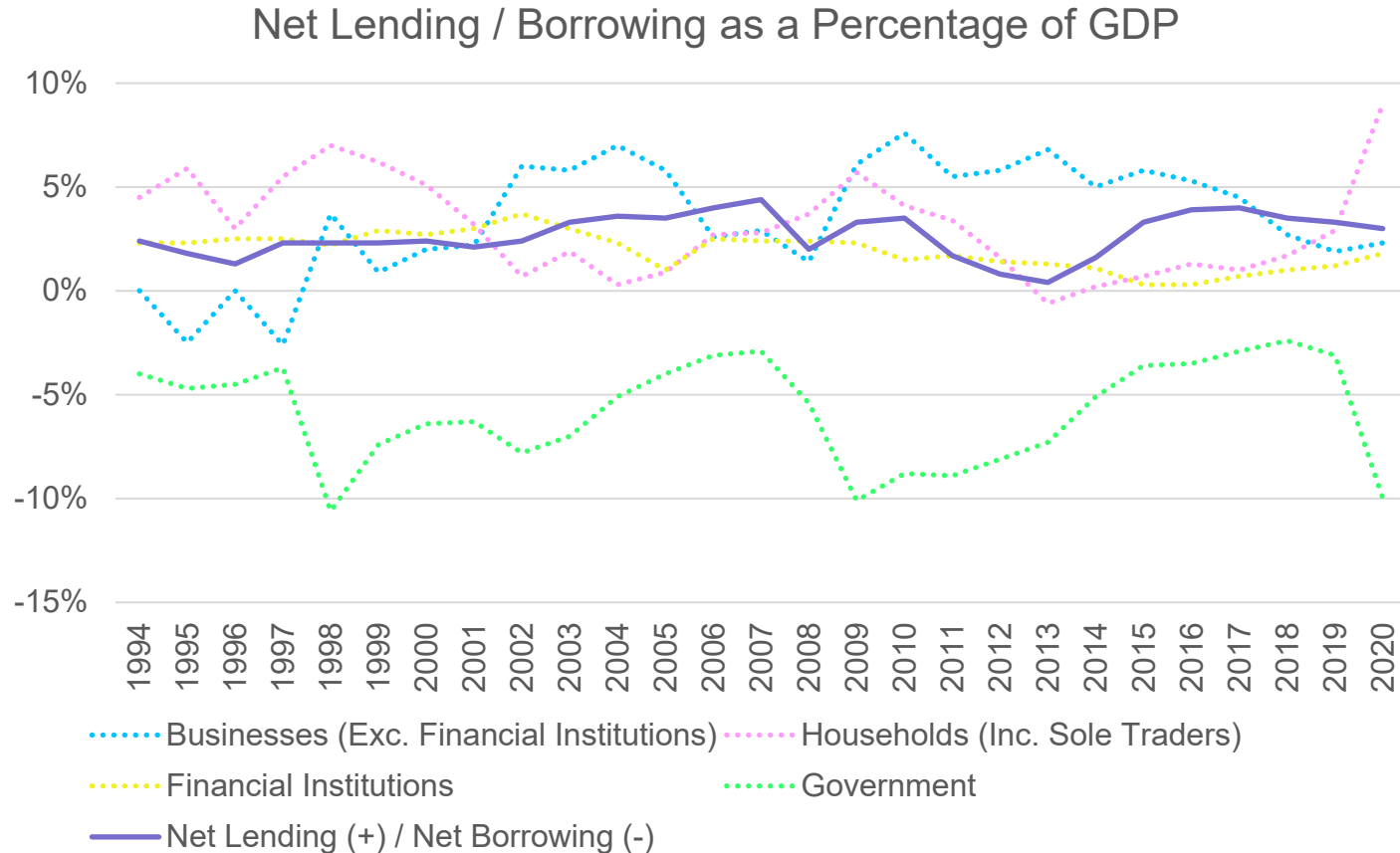


- 45.4% of German government debt is held by none-German investors, which is significantly higher than Japan's 14.3%.
- 29.9% of US Federal debt is held by non-US investors. The volume of US debt has increased markedly in recent years, from USD 14.67 trillion in 2017 to USD 24.25 trillion now. The share owned by non-US investors fell over the same period from 42%.

Source: Eurostat ([https://ec.europa.eu/eurostat/databrowser/view/GOV\\_10DD\\_GGD\\_custom\\_1571214/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/GOV_10DD_GGD_custom_1571214/default/table?lang=en)), Japan Ministry of Finance ([https://www.mof.go.jp/english/policy/jgbs/publication/debt\\_management\\_report/2022/esaimu2022.pdf](https://www.mof.go.jp/english/policy/jgbs/publication/debt_management_report/2022/esaimu2022.pdf)), and US White House ([https://www.whitehouse.gov/wp-content/uploads/2023/03/ap\\_20\\_borrowing\\_fy2024.pdf](https://www.whitehouse.gov/wp-content/uploads/2023/03/ap_20_borrowing_fy2024.pdf))



# NET LENDING / NET BORROWING



The Japanese government (green) is a net borrower, although the deficit has reduced in recent years (until the pandemic).

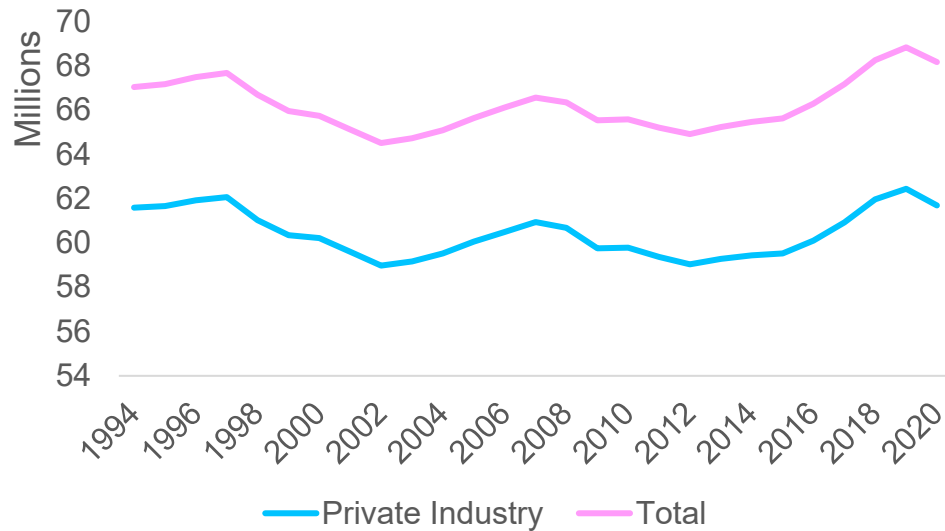
This deficit is offset by other sectors of the economy – especially private businesses, which are net lenders.

**As a result, the nation as a net lender.**

Source: [https://www.e-stat.go.jp/stat-search/files?page=1&layout=datalist&toukei=00100409&tstat=000001015836&cycle=7&tclass1=000001149055&tclass2=000001165367&tclass3=00001165368&stat\\_infid=000032196141&tclass4val=0](https://www.e-stat.go.jp/stat-search/files?page=1&layout=datalist&toukei=00100409&tstat=000001015836&cycle=7&tclass1=000001149055&tclass2=000001165367&tclass3=00001165368&stat_infid=000032196141&tclass4val=0)

# EMPLOYMENT INDICATORS

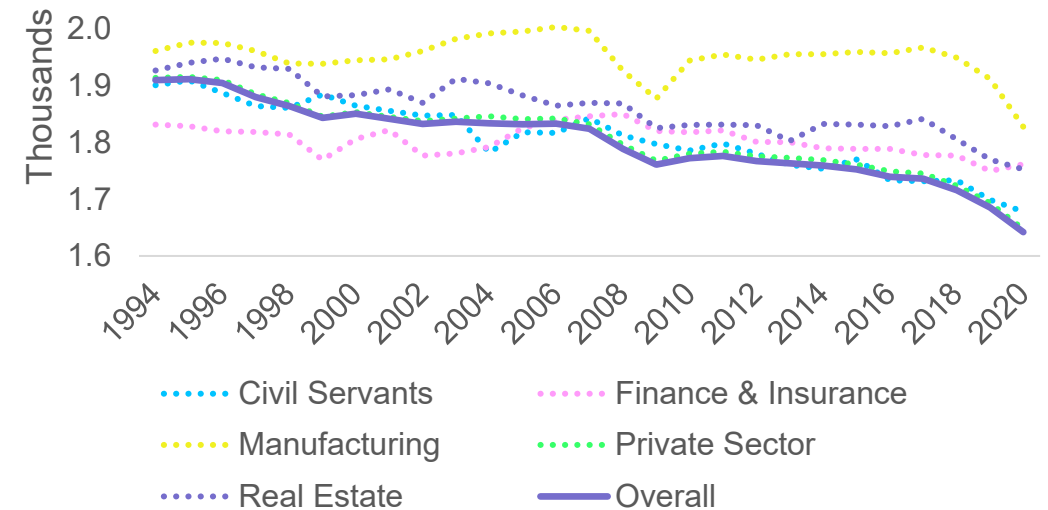
## Employed Labour Force



Source: [https://www.e-stat.go.jp/stat-search/files?page=1&layout=datalist&toukei=00100409&tstat=000001015836&cycle=7&tclass1=000001149055&tclass2=000001165367&tclass3=000001165368&stat\\_infid=000032196118&tclass4val=0](https://www.e-stat.go.jp/stat-search/files?page=1&layout=datalist&toukei=00100409&tstat=000001015836&cycle=7&tclass1=000001149055&tclass2=000001165367&tclass3=000001165368&stat_infid=000032196118&tclass4val=0)

The number of employees working in Japan has remained relatively steady since 1990, but has begun to increase in recent years, reaching 68.8 million in 2019 – despite the declining population.

## Average Annual Working Hours per Sector



Source: [https://www.e-stat.go.jp/stat-search/files?page=1&layout=datalist&toukei=00100409&tstat=000001015836&cycle=7&tclass1=000001149055&tclass2=000001165367&tclass3=000001165368&stat\\_infid=000032196118&tclass4val=0](https://www.e-stat.go.jp/stat-search/files?page=1&layout=datalist&toukei=00100409&tstat=000001015836&cycle=7&tclass1=000001149055&tclass2=000001165367&tclass3=000001165368&stat_infid=000032196118&tclass4val=0)

Average working hours in Japan have been decreasing in most sectors, reaching an average of 1,642 hours in 2020.

This implies that Japanese workers are increasingly able to spend more free time at home, or on leisure activities.

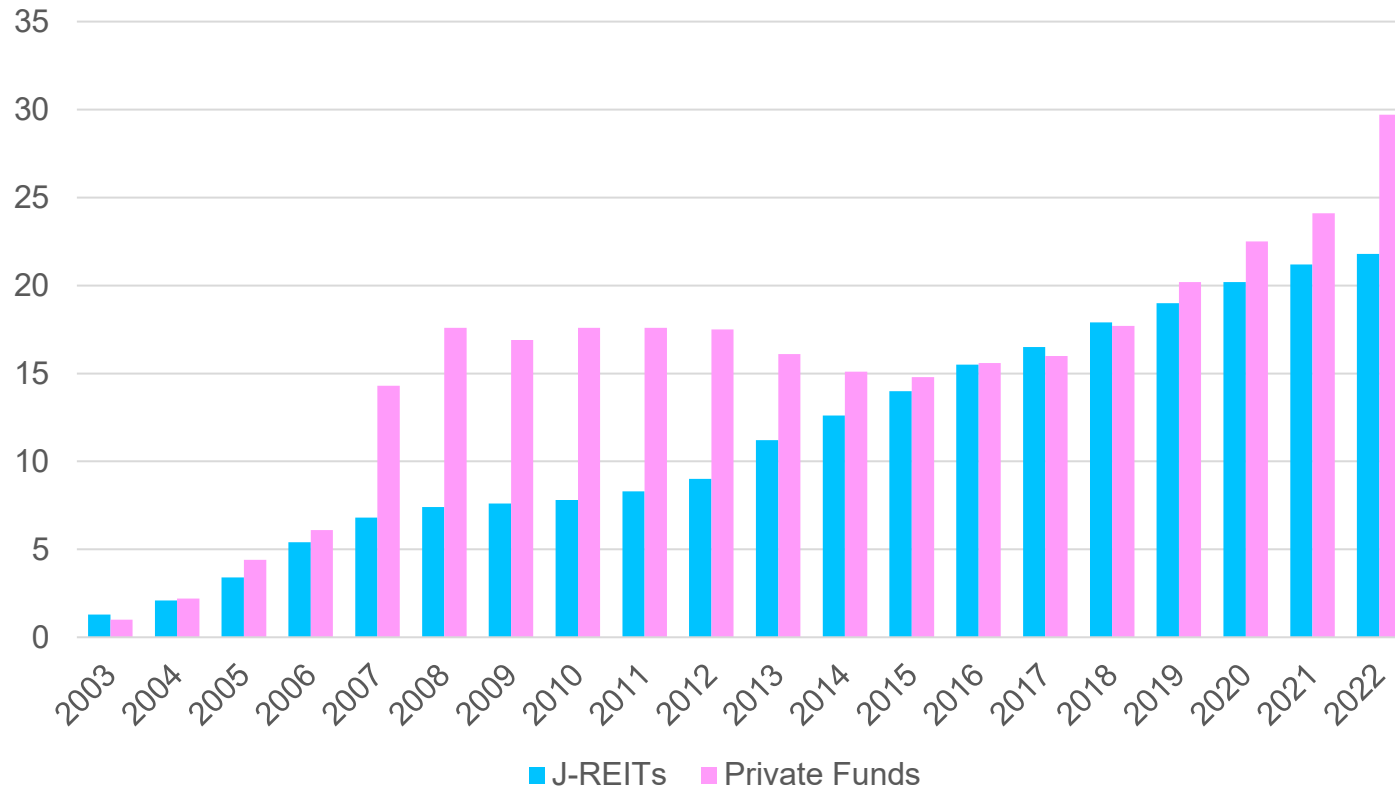


## 2. The Japanese institutional real estate market

This presentation focuses on the public J-REIT market as the only part of the market that is ‘fully’ Transparent. Until 2021 representing about 50% the market’s AUM

# ASSETS UNDER MANAGEMENT J-REIT AND PRIVATE FUNDS

AUM of J-REITs and Private Real Estate Funds



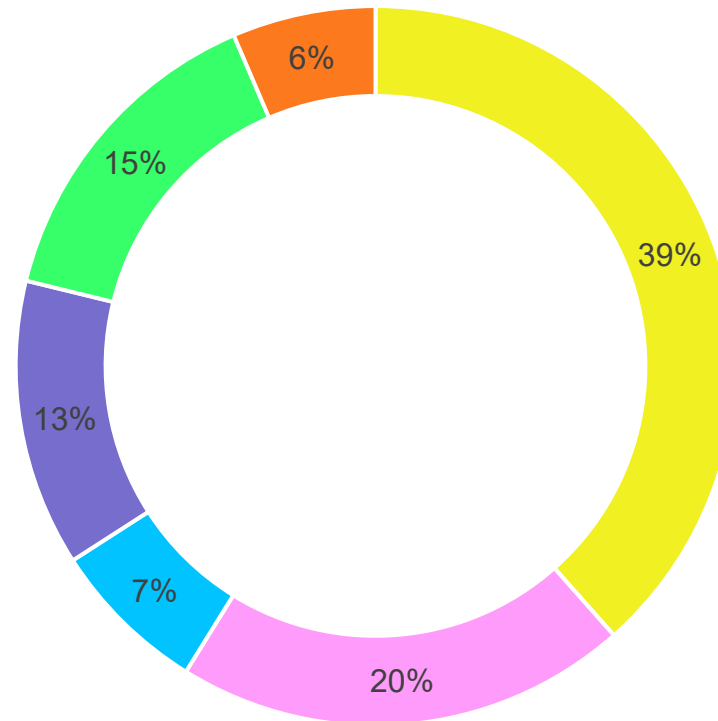
Public J-REITs less active during 2022 due to equity markets disruption not allowing public offerings at reasonable pricing

Private REIT and Foreign Investors very active with Foreign investors transaction volume increased by 12%, and 44% share among transactions of JPY 10 Billion and more

Source; Sumitomo Mitsui Trust Research Institute, "Survey on Private Real Estate Funds in Japan" ([https://www.smtri.jp/market/pf\\_trend/](https://www.smtri.jp/market/pf_trend/)) – figures refer to Book value of properties (vs. appraisal value)

# J-REIT ASSET TYPES

## JREIT Assets Under Management



**3.8 Trillion JPY**  
Residential Assets under Management:  
J-REITS (2022)

**3.97%**  
Average Cap Rate of all Residential  
Assets under Management: J-REITS  
(2022)

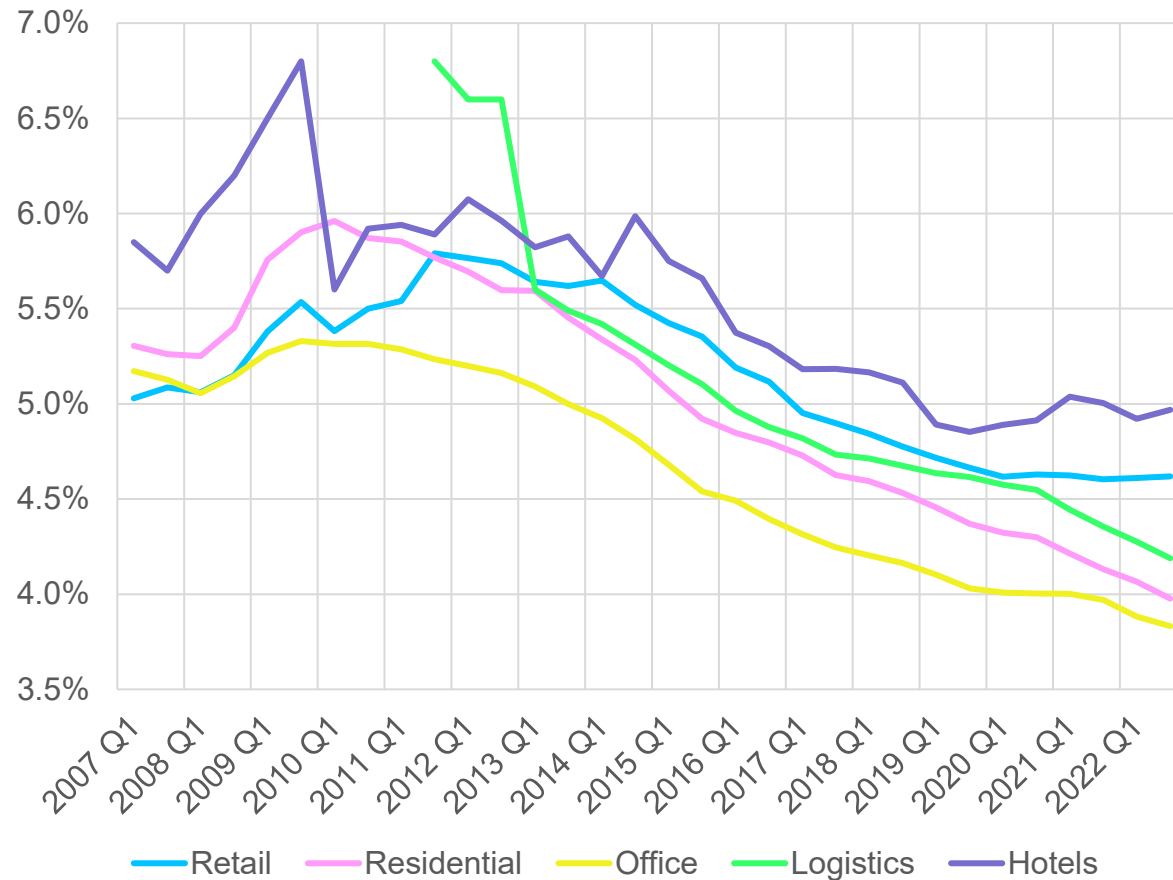
**14.75%**  
of Residential Assets relative to all J-  
REIT AUM: J-REITS (2022)

■ Office ■ Industrial & Logistics ■ Hotels ■ Retail ■ Residential ■ Other

Note: This graph, and all subsequent references to assets under management (AUM), are calculated using the appraisal value of properties owned by JREITs. As a result, the figures here are slightly different to the previous slide, which used the book value.

# J-REIT CAP RATES ACROSS ASSET CLASSES

J-REIT Cap Rates Development Since Jan. 2007

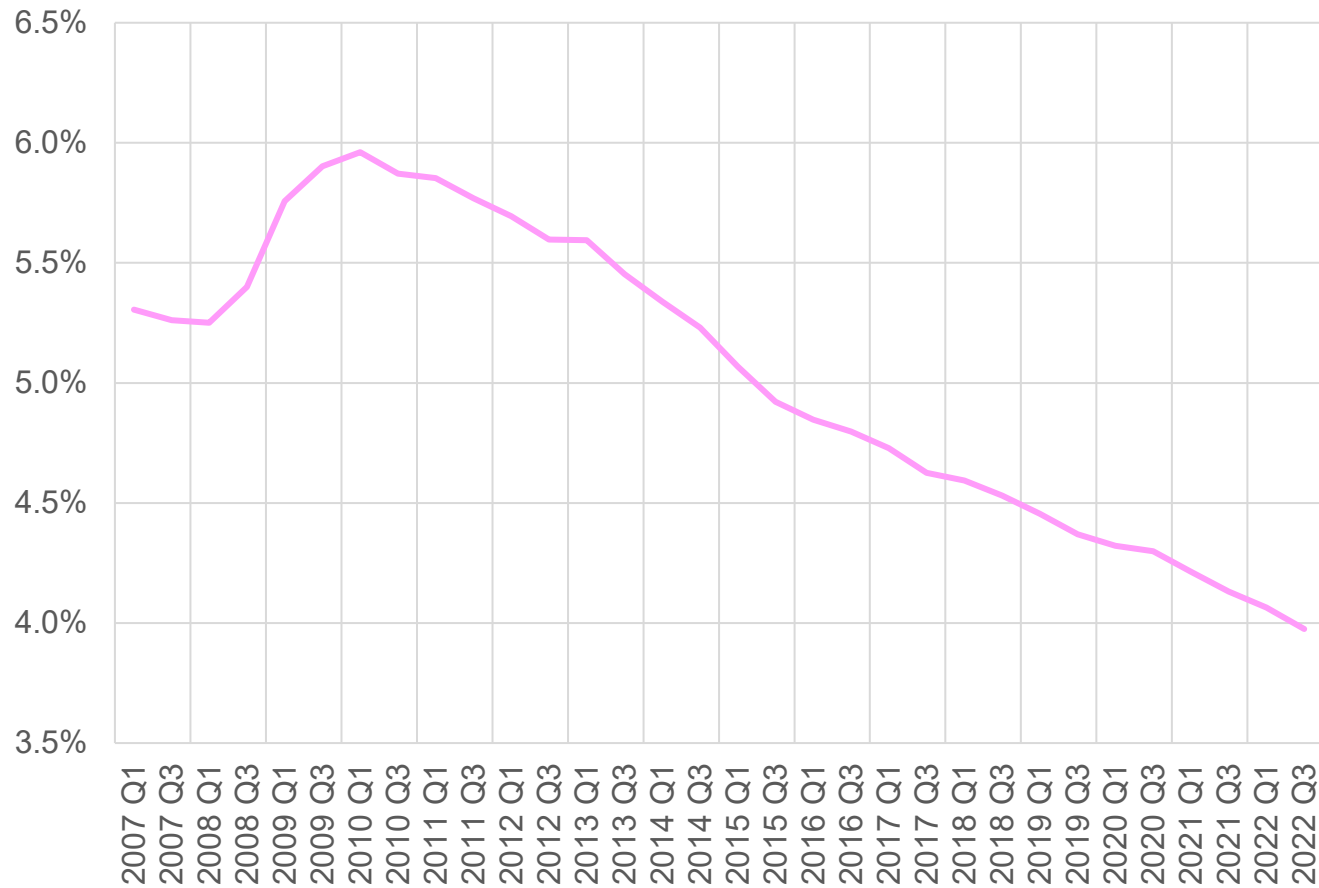


J-REIT Cap Rates as of December 2022

ASSET CLASS	J-REIT Cap Rate
Hotels	4.96%
Retail	4.62%
Logistics	4.19%
<b>Residential</b>	<b>3.97%</b>
Office	3.83%
UST 10 Year	3.46%
JGB 10 Year	0.46%

# RESIDENTIAL CAP RATES: J-REIT

## J-REIT Average Residential Cap Rate

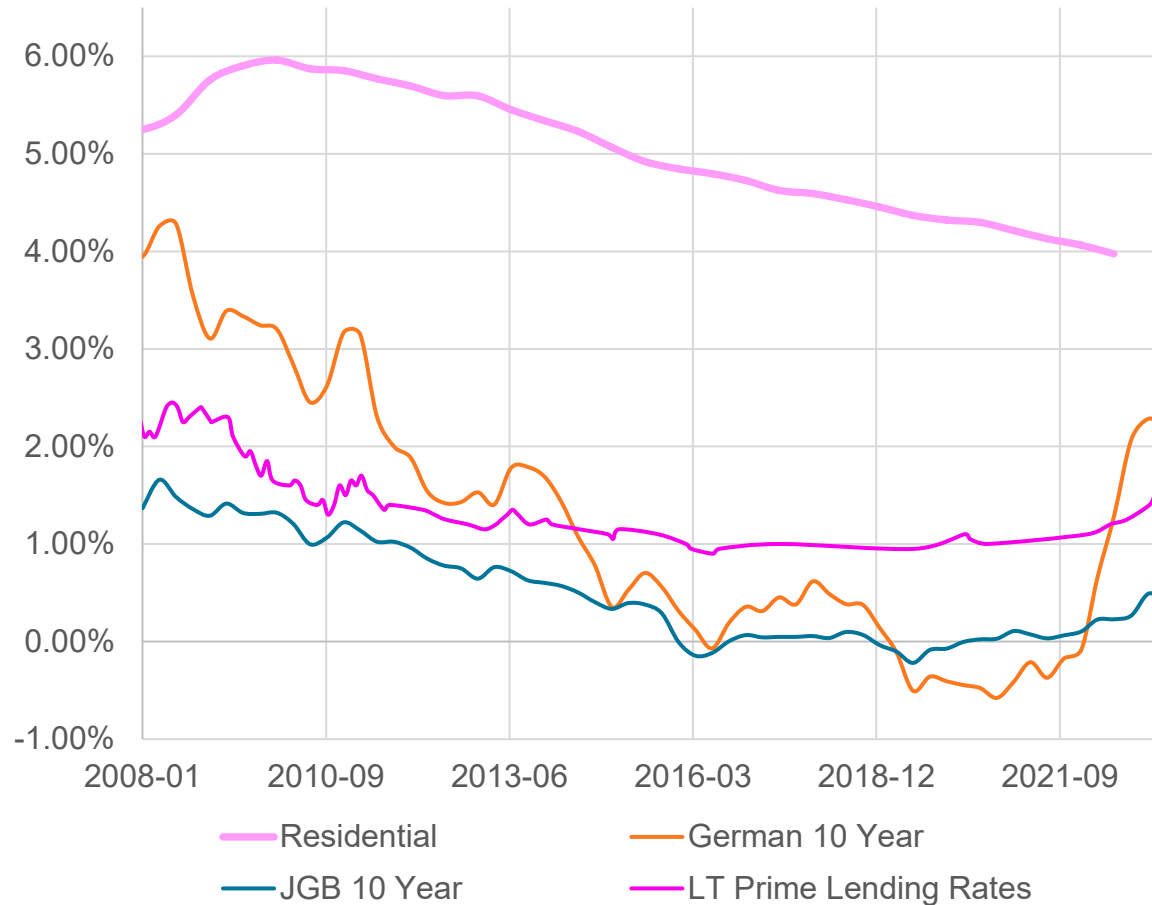


Cap rates for institutional grade residential assets have continued to compress throughout the COVID pandemic as investors turned to the stability of Japanese residential real estate as a store of value and a stable revenue streams

Japanese residential Cap rates are valued at 3.97% for institutional (J-REIT) holders on a national average.

# J-REIT RESIDENTIAL CAP RATES SPREAD: LT PRIME LENDING RATES

J-REIT Residential Cap Rates versus Capital Market



ASSET CLASS	Yield	Spread
Residential	3.97%	-
German 10 Year*	2.32%	165 bps
JGB 10 Year*	0.46%	351 bps
US T 10 years*	3.46%	41 bps

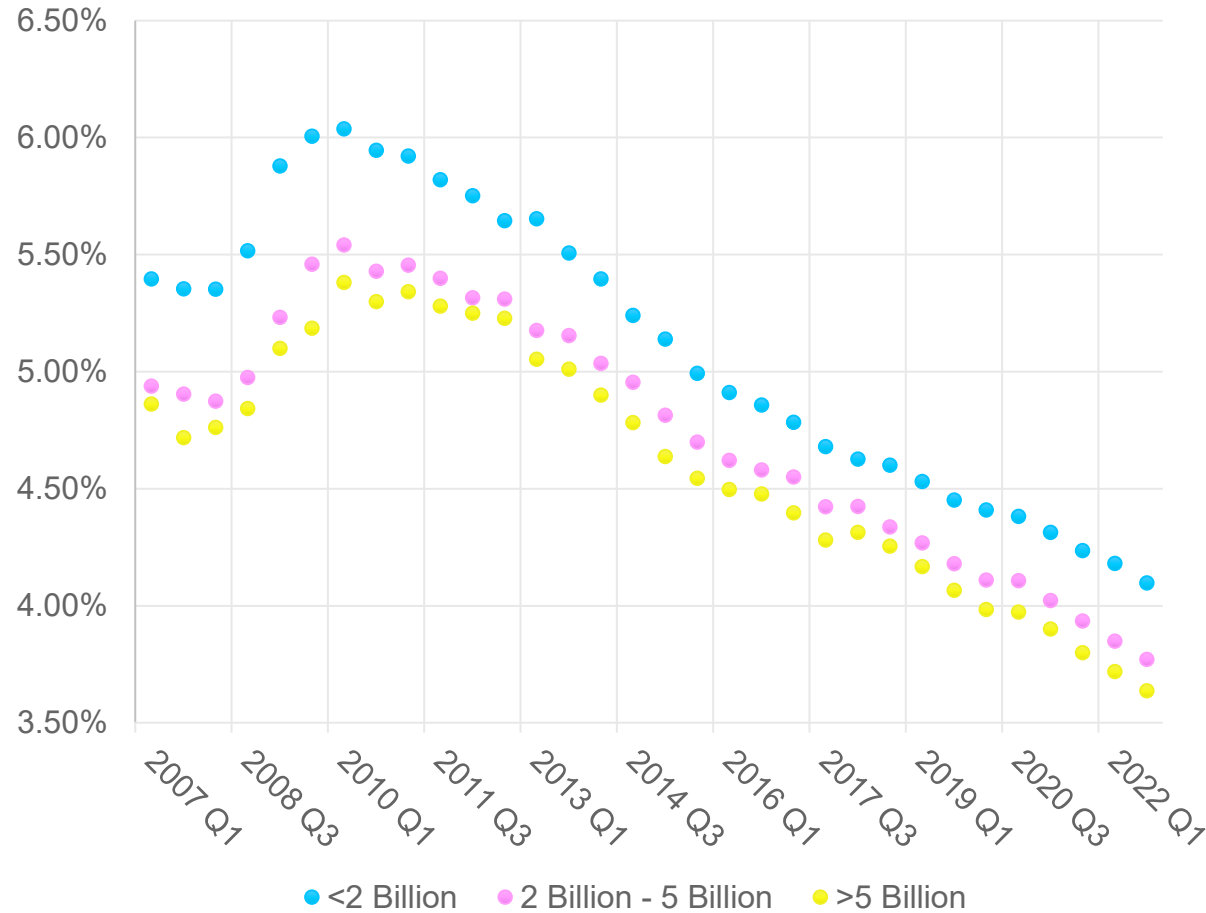
### LT Prime Lending Rates

- Source: BOJ survey – based on Mizuho Bank long term prime lending rates
- For detailed TIBOR rates, please see Appendix C: 3 month Tibor Rates



# J-REIT RESIDENTIAL CAP RATES – SPREAD : ASSET SIZE

Residential Cap Rates by size of Asset

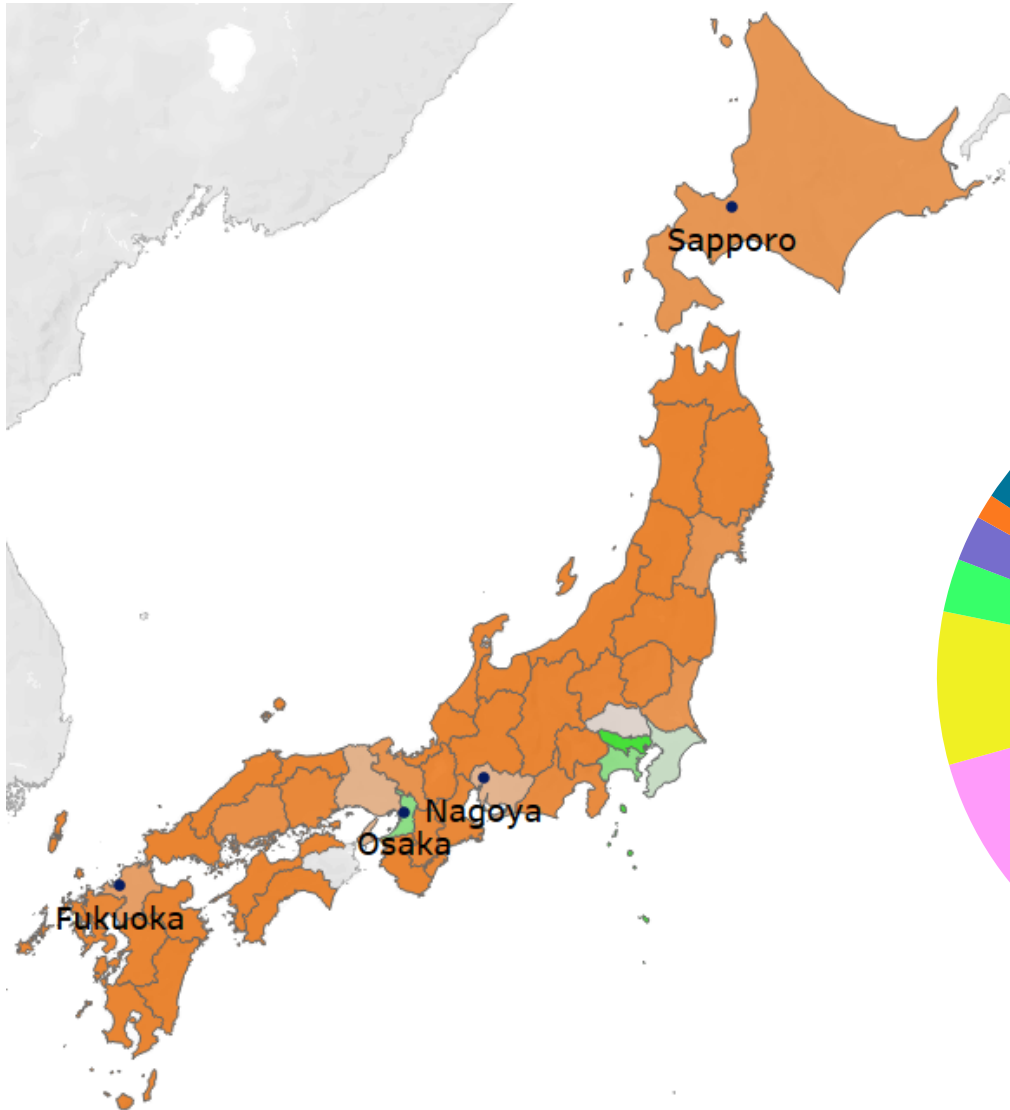


ASSET SIZE (JPY)	Yield	Spread
Residential – ALL	3.97%	33bps
Less than 2 Billion	4.10%	46bps
2 to 5 Billion	3.77%	13bps
Above 5 Billion	3.64%	-

**Asset size spread**

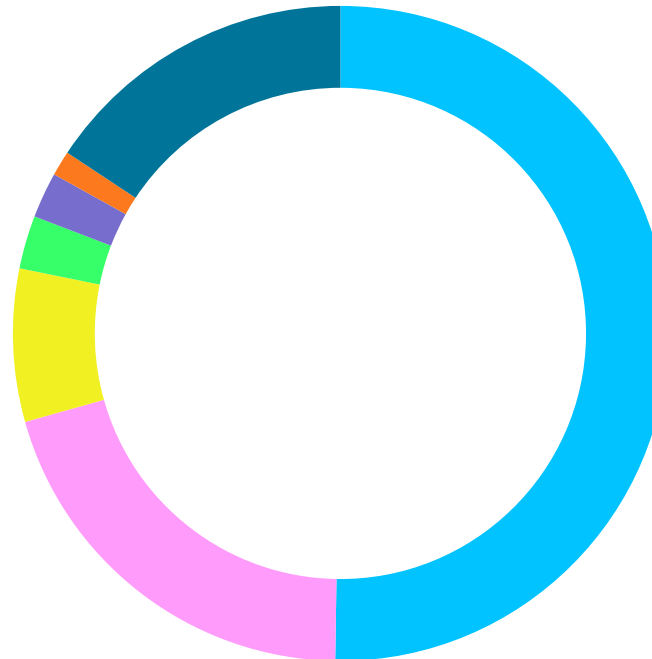
- The spread margins exist as larger assets or portfolios command a lower cap rate.
- Spreads also occur as larger assets are located in prime areas such as Tokyo Central CBD.

# J-REIT ASSETS UNDER MANAGEMENT



- The six target areas constitute 84.3% of the J-REIT market.

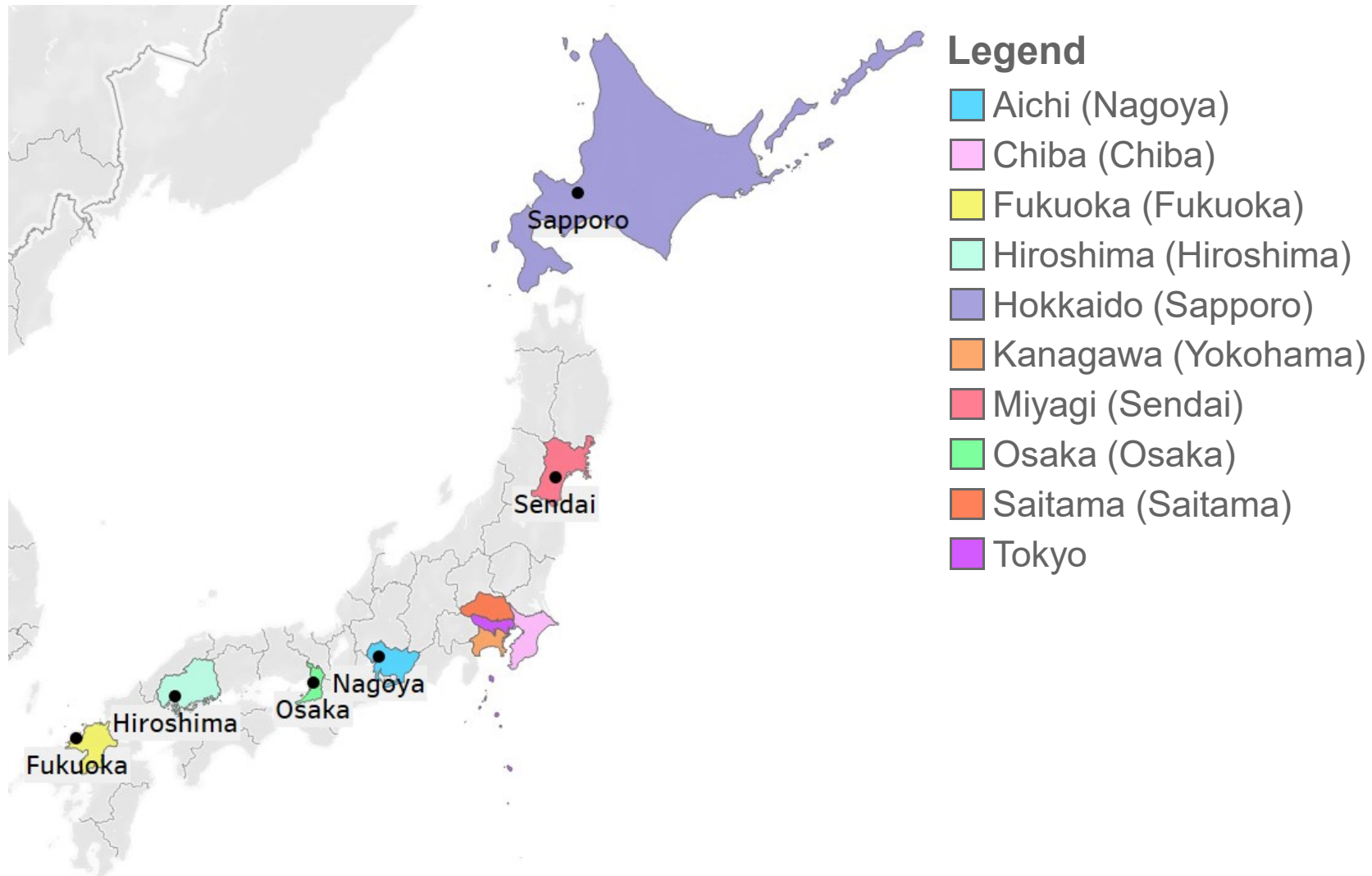
1. TOKYO
2. GREATER TOKYO
3. OSAKA
4. NAGOYA
5. FUKUOKA
6. SAPPORO



Region	AUM	% AUM
Tokyo	12,857,401,000,000	50.3%
Greater Tokyo	5,217,686,000,000	20.4%
Osaka	1,930,500,000,000	7.5%
Nagoya	671,643,000,000	2.6%
Fukuoka	577,326,000,000	2.3%
Sapporo	315,887,000,000	1.2%
Other	4,015,702,000,000	15.7%
<b>Total</b>	<b>25,586,145,000,000</b>	<b>100%</b>

Source: GRIT-Tech JREIT Database

# TARGET PREFECTURES IN JAPAN





### 3. Investment Regions in Japan

Our full Market Report is available upon request under:  
[research@ken-sho-investment.com](mailto:research@ken-sho-investment.com)