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CEO Insight: Japan proves its reliability even during disasters

Intensive preparations for emergencies reduce the impact of earthquakes and preserve the value of Japanese real estate.

Two powerful images from Japan went around the world at the beginning of the year: a seven-story building tipped on its side by a strong earthquake in western Japan and a Japan Airlines Airbus burning out after a collision next to the runway at Tokyo's Haneda Airport. However, the stories behind them were much more positive than these images.

Most of the houses on the hardest-hit Noto Peninsula withstood the 7.6-magnitude tremors on New Year's Day because they were built to strict government specifications to resist earthquakes. And all 379 people on board the JAL flight were able to escape the fire inferno via emergency slides. The crew knew the evacuation process inside out, the passengers followed their instructions with discipline and left their hand luggage in the overhead compartments so that they could disembark as quickly as possible.

These sides of the two disasters demonstrated Japan's great strength in preparing for emergencies as well as possible to limit the damage to people, be it through the quake-proof construction of buildings or regular crew drills for the rapid evacuation of aircraft. Not all eventualities can be taken into account in advance, as experience with the Fukushima nuclear power plants has shown. But Japan regularly functions well even under extreme conditions.

It is this high level of reliability that impresses and fascinates me about Japan. This reliability, that everything is done to keep a given promise, is one of the most important factors here in business life. This is how the Japanese gain the trust of customers and investors.

Foreign investors often emphasize to me how much you can rely on statements and promises in Japan. For example, in forward transactions, when a property is purchased before it is built. The contractual partner then generally meets the promised completion date on time and under the agreed conditions. A symbol of this reliability is the signs that hang on the fence of every construction site. The month and year of the end of the construction work are deliberately published there for everyone to see.

It is not only construction companies and developers that can be relied on in Japan's economy but also lawyers, tax consultants, auditors, and all other players and stakeholders. In Japan, the system works reliably because everyone makes the necessary contribution. Tax refunds are made promptly after the tax return has been submitted, and those who are in arrears settle their debts just as quickly.

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Japanese reliability is based on careful planning, preparation, and implementation. Modern apartment buildings, for example, can withstand even severe earthquakes because Japan has successively tightened its building regulations. The building code for earthquake-resistant buildings (shin taishin) issued back in 1981 aims to ensure that they only suffer small cracks in the event of severe earthquakes and then function as usual. They do not collapse even in the strongest earthquakes. The difference is shown by these statistics from the Hanshin earthquake in Kobe and Osaka in January 1995. Newer buildings suffered almost no damage.

Report on the Damage of Reinforced Concrete Buildings due to 1995 Hanshin (Osaka/Kobe) earthquake on 17 January 1995 (Author: Committee for School Buildings).

Building Completion	pre 1971	1971 to 1981	post 1981	Total
Collape	18	2	0	20
Severe Damage	24	9	0	33
Moderate Damage	90	39	11	140
Minor Damage	41	21	7	69
Minimal/no Damage	159	95	115	369
Total	332	166	133	631

An estimated 20% to 30% of today's building stock dates back to before 1981. The house that toppled over in Wajima was built in 1972 with a reinforced concrete structure. The vibrations caused the steel beams that supported the foundation to break. Japanese buyers avoid such old apartments and buildings. As a result, these properties lose value, which tends to increase the pace of structural renewal.

The effort required for earthquake-proof construction is considerable. First, the condition of the ground must be checked with deep drilling, the subsoil reinforced if necessary and the foundation adapted to the soil type. The supporting structure, whether timber or steel, must be constructed in such a way that it can move with the ground during an earthquake.

Vibration damping is not required by law but is recommended for high-rise buildings. The dampers absorb part of the shock energy. Also optional is isolating the base of the building from the ground. This method for high-rise buildings and skyscrapers is the most expensive and safest and therefore the benchmark for large developers. The buildings sway more slowly, albeit for longer.

Emergency systems automatically stop gas and electricity and switch on emergency lighting and fire extinguishing systems. Construction companies have had to provide a 10-year guarantee against building defects since 2000. Following a case of falsified safety data, all residential buildings with more than three stories have been inspected in the middle of the construction process since 2006. A further inspection for earthquake safety follows every ten years.

This approach explains the limited damage to "investment grade" properties during Japan's worst earthquake in centuries in March 2011. The damage to the assets of the listed real estate funds (J-REITs) of 115 billion euros at the time amounted to only 43 million euros or just 0.038% of their value.

The state therefore guarantees a solid safety standard and leaves it up to builders and developers to offer buyers and tenants even higher levels. Because of the strict controls, buyers can rely on the provided information. Kensho's experts look for the best possible earthquake resilience when selecting properties to buy.

Instead of earthquake insurance, Japan invests in earthquake-proof construction methods. The country has been researching and investing in this for decades. This high level of security preserves the value of the investor's investment even in the event of the worst disasters.

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