KENSHO INVESTMENT GROUP

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CEO Insight: Expert advice rather than gut feeling, listening rather than knowing better

Japanese real estate has long been a must-have, not a nice-to-have, and should be part of any global investment strategy.

Union Investment recently sold two office and retail properties in Tokyo "at a profit". The investment arm of the DZ Bank Group had acquired the two rather prominent properties in the central Shibuya district in 2008 and 2014 respectively for its open-ended mutual property fund "UniImmo: Europe". Considering market conditions at the time, Union Investment should have made substantial profits on these transactions. Over the past twelve months, German “special funds” have also used Japan to quickly generate liquidity for their investors (including insurers and pension funds) through profitable sales.

For Union Investment, the sale of the two Tokyo properties had nothing to do with market conditions, but was apparently driven by internal factors, as the asset manager itself confirmed. "The Japanese real estate market is very liquid and attractive, well-let properties continue to enjoy strong demand, especially from local investors," said Adam Irányi, Head of Investment Management Global at Union Investment.

This positive assessment and the lucrative exit by Union Investment and the special funds should demonstrate to other investors in Germany how safe and rewarding it is to invest in Japanese real estate, and, moreover, how irreplaceable regional diversification is for liquidity risk management. In my experience, success is always achieved when German investors listen to experienced Japan experts and act on their advice. In particular, the following principle applies: Japanese real estate has long since become a must-have, not a nice-to-have, and therefore belongs in any global portfolio.

Unfortunately, time and again we see German decision-makers at asset managers, whether in Frankfurt, Hamburg, Munich or elsewhere, who believe they know more about Japan than experts based in Japan who have been dealing with the market for decades and have successfully invested there themselves. I recall a transaction for a major German investor well into the triple-digit million-euro range. We negotiated exclusively and directly with the Japanese owner of the property. After six months of preparation, the deal was put to a vote in the investment committee. But the German CEO spoke against the deal. He had a bad gut feeling about Japan.

German investors often lack confidence in Japan. Even when they travel to Japan to see the market for themselves, many come not to listen but to confirm their reservations.

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But I have had a different experience as well. When I set up the Japanese subsidiary of Hypo Real Estate, my CEO Georg Funke was convinced that Japan was an important market for diversification in real estate. "If we are active in the US and throughout Europe, we must also be active in Japan, the largest market in Asia," Funke argued. Hypo Real Estate went on to become the largest foreign real estate lender in Japan.

His credo is even more valid today, as the then young institutional market has now matured. Today, Japan has to be a core investment in a global investment strategy. It is geographically part of Asia, but must be considered a separate economic entity. Its REIT market is the second largest in the world. Japan is also the world's largest creditor and the largest net investor abroad. Of course, Japan has the highest government debt to GDP ratio. But more than half of that is held by the Bank of Japan, and 87% of new debt is financed domestically. By direct comparison, Germany is much more dependent on foreign capital, with a 55% share.

Japan's strong, stable and transparent property market offers investors invaluable advantages. On the one hand, positive real returns can be achieved there. This will not change as the Bank of Japan intends to maintain its accommodative monetary policy. On the other hand, investors can harvest their gains from previous transactions at any time because they are faced with highly liquid buyers who can easily finance the purchase of the properties.

Investors in Japan are participating in Asia's strong growth, but on safe and familiar ground. For historical reasons, Japan's solid and proven legal system is based on German civil and commercial law. Market participants have a long-term business approach, making them ideal partners for property transactions.

The legendary investor Warren Buffett carefully registered all these positive characteristics. He came to Japan to learn, he sought value, he found value, he set up a long-term strategy and executed it in 2020 with a high-profile, multi-billion-dollar investment in the big five trading houses. The value of his shares has multiplied in the meantime. I cannot promise you such profit increases, but Kensho has the knowledge, experience and network to help you make a profitable investment in Japanese residential real estate.

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