

## Japan: a land of mystery – a land of opportunity for property investors

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***The Japanese REIT market is homogenous and somewhat mysterious. Notwithstanding the above, we have identified investible opportunities within the broader Japanese property market that satisfy our desire for superior cash flow growth.***

***We continue to manage our global property fund in a benchmark agnostic manner. This affords us the opportunity to invest in securities and themes that others shun or only adopt in a very delayed manner.***

***In addition, we remain true to our core approach of investing in accordance with our Growth at a Reasonable Price investment style.***

### *Japan – opportunity resides against a backdrop of homogeneity and mystery*

The Japanese REIT market tends to be homogenous in terms of the available opportunity set of investible securities. Japanese REITs as a group are largely a proxy for the Japanese bond market. This limits the degree to which fundamental analysis can assist with superior investment decisions.

In addition, Japan has an aura of mystery. This may be due to cultural and language differences.



Source: <http://www2.wayn.com/>

Anecdotally, those of us who live in what one could call the westernised world see Japan as a place of the unknown.

Notwithstanding this, in life and in investing, opportunity sometimes resides in the depths of mystery and uncertainty. Certain investors may be fearful of investing in a region where people don't talk or behave like they do. However, at Reitway do not impose these constraints upon ourselves. Instead, our primary focus is to create wealth for our clients. One of the ways we achieve this is through a culture of continuous improvement.



Source: <http://insidedestiny.com/the-art-of-kaizen-continuous-improvement>

Despite the homogeneity and mystery described above, the broader investible Japanese property market exhibits an enticing outlook. According to our research, Japanese risk assets including equities and real estate are on course for a multiyear structural bull market. Underlying the above is the expectation of positive earnings momentum, with a weaker currency providing a significant uplift to earnings growth.

It is the abovementioned increase in earnings visibility that is poised to drive share price performance – where earnings go, share prices eventually follow. In addition, steady increases in domestic demand and GDP as well as stimulative fiscal and monetary policy are set to provide further support to share prices.

*Japanese monetary policy will remain accommodative*

At Reitway, we do not follow a top-down approach to portfolio construction (notwithstanding our macroeconomic portfolio overlays). However, we have acknowledged for quite some time that the *stock market performance* (often not analogous with *operational performance*) of Japanese investments is largely a reflection of central bank policy (i.e. Abenomics).

Currently, the Bank of Japan (BoJ) has stayed the course in terms of accommodative monetary policy. Governor Kuroda has reiterated his confidence in the fact that their 2% inflation target will be achieved over time. The governor has also stated that it is still premature to detail an exit strategy in terms of the current monetary stance, due to the risk of unnecessary destabilising financial markets.



Source: <https://www.alt-m.org/2016/05/03/japan-way/>

It often appears as if BoJ leadership does not necessarily have a clear idea of what they'd like to achieve or how to get there. Despite this, our proprietary models allow us to assess the global, currency-adjusted attractiveness of the Japanese (and all other) property markets and individual securities. This provides the platform for us to continue to generate superior returns for our investors.

### *Specific opportunity – Mitsubishi Estate Corporation*

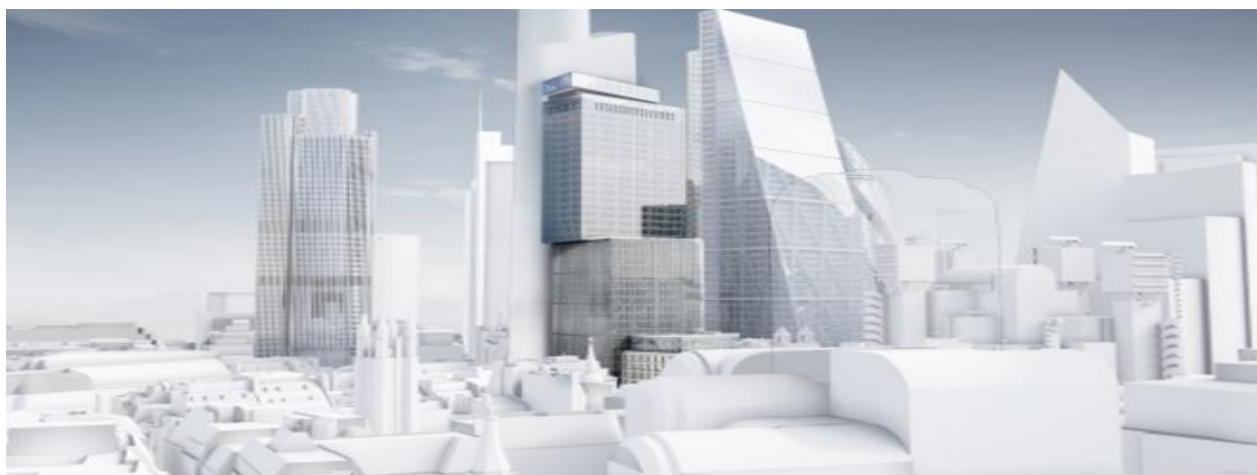
Based on fundamental and quantitative factors, we have uncovered an opportunity within the Japanese property market in the form of Mitsubishi Estate Corporation.

*“The strength of the Mitsubishi Estate Group lies in its comprehensive business structure, which encompasses Group members that seamlessly cover businesses ranging from development to leasing and property management. Looking at the real estate industry in countries overseas, in most places the industry is divided into two main groups: developers and property managers.*

*In contrast, the Mitsubishi Estate Group operates under a policy of maintaining ownership of the majority of the properties that it has developed. This enables the Group to pursue urban development with an eye to the future – a future of not only a decade or 50 years but as much as a hundred years from now.”*

*Source: <http://www.mec.co.jp/e/about/>*

In its leasing business, Mitsubishi Estate has highly competitive properties, comprising of mainly built-for-rent office buildings in the Marunouchi area. The company's profit exposure to built-for-sale condos (where deteriorating market conditions is a concern) is the lowest of the Big 3 real estate firms. In addition, Mitsubishi Estate has been putting effort into improving its corporate governance. As such, our research indicates that downside risk to earnings is limited.



*Source: <http://www.propertyweek.com>*

Capital gains are expected to provide substantial support to earnings, owing to the fact that the company owns a wide range of saleable assets including office buildings, commercial facilities, rental housing, logistics facilities and hotels.

*Reitway's investible universe – a competitive advantage*

Reitway, as the name suggests, invests primarily in REITs and REIT-like securities. REITs' high earnings visibility is an attractive attribute. This trait is valuable particularly when coupled with a strategy of investing in listings that exhibit very attractive cash flow growth rates. However, our focus on REITs doesn't mean that we will not, at times, invest in property investments that are not strictly REITs.

The abovementioned infrequent deviation from our core category of investments is justified, as long as we substantially adhere to our investment approach and style on a portfolio-wide basis. In addition, the investment case for the specific also needs to be compelling, of course – this is a requirement in terms of all our direct holdings. We are of the view that we will continue to benefit due to our relatively unconstrained access to the abovementioned range of opportunities, given our benchmark agnostic approach. [REITWAY](#)

For more information about Reitway Global Property Funds, please visit our website at [www.reitwayglobal.com](http://www.reitwayglobal.com) or contact us on 021 551 3688.