

10 Years Kenzo – Success in Japan with residential real estate

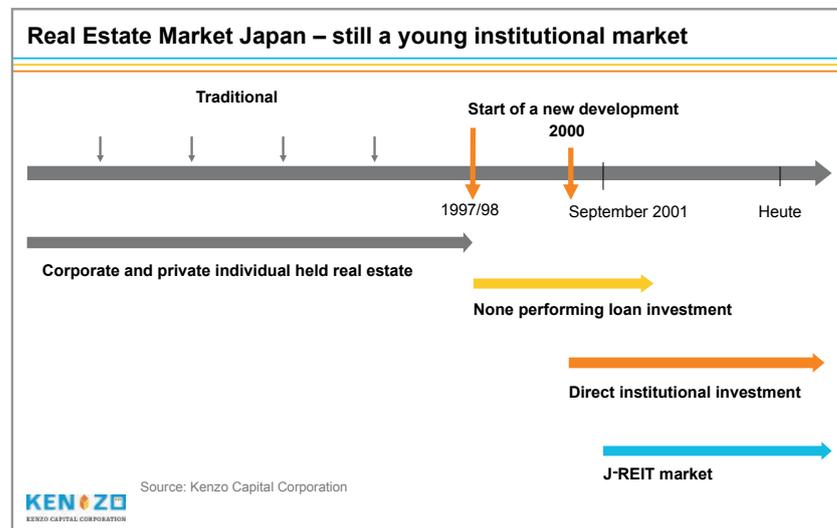
Tokyo, October 7th, 2018

Dr. Meyer zu Brickwedde, why did you start Kenzo Capital Corporation 10 years ago?

I took this step because at that time, the Japanese real estate market became ready for the arrival of central European, long-term oriented core investors. I wanted to advise and support these institutional investors.

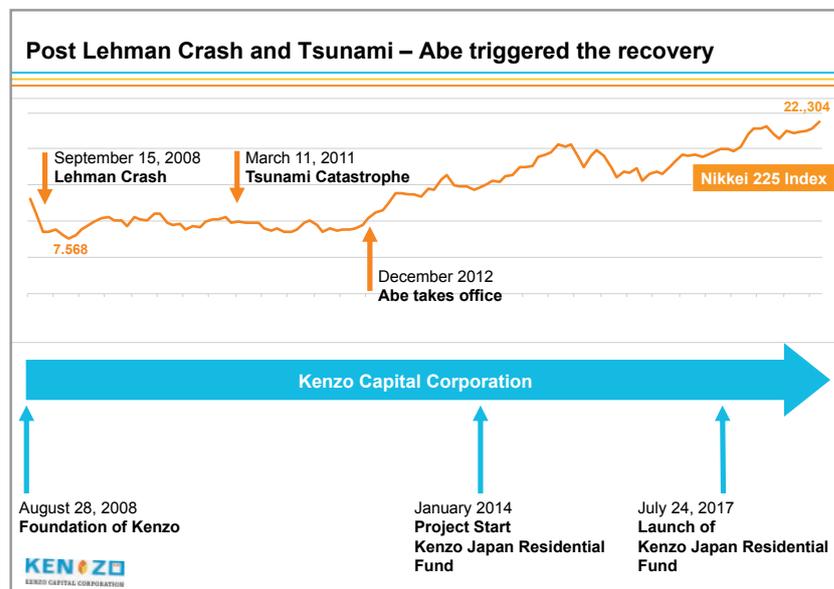
What do you mean by the market became “ready”?

The Japanese real estate market is very young. For a long time, the market was almost entirely in the hands of Japanese companies and individuals. Real estate was held as an investment, but without the intention and ability to maximize returns. Only since the year 2000, institutional investors became active. When I built up a team for structured real estate financing at HypoVereinsbank, only opportunistic investors such as US hedge funds and investment banks invested. In 2001, Japan launched the new segment for listed mutual funds in real estate. These J-REITs are legally required to reveal all information about the evolution of their investments and their portfolios. As a result, transparency gradually improved until the Japanese market in 2007 received the rating “transparent” in the Real Estate Market Transparency Index Jones Lang Lasalle. That was the starting signal for Kenzo.



In retrospect, the timing could have been better. How did Kenzo develop?

At first, we were stopped by the Lehman crash. Real estate sales plummeted and US investors left Japan. As soon as this dry spell ended, the tsunami catastrophe in Fukushima and East Japan in the spring of 2011 caused negative headlines. Investors from Germany and Europe cancelled planned investments because they feared a price erosion. Prices remained stable even in the six months immediately following the disaster, though. In the residential real estate area, prices even rose.



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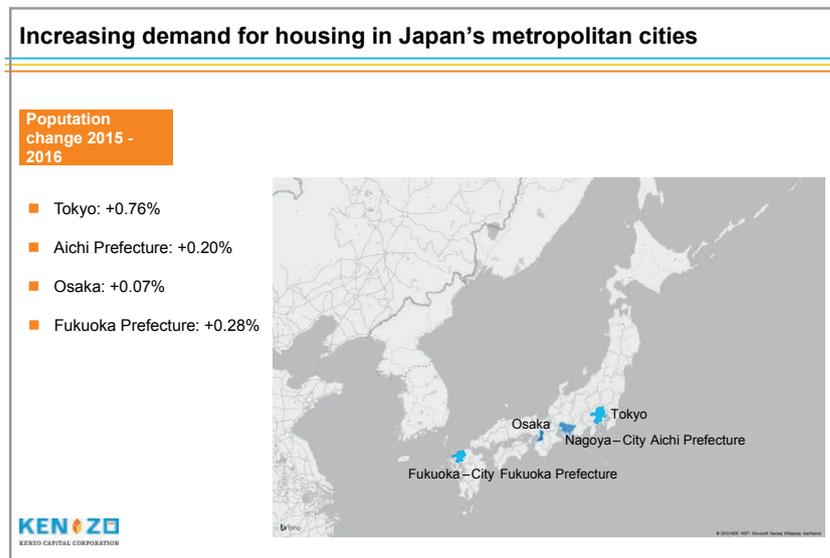
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What lessons did you learn with Kenzo from those difficult times?

We realized back then that we should not only advise investors because this makes us dependent on decisions which may be taken in isolation from the Japanese market. This insight led us to initiate the Kenzo Japan Residential Fund. The launching of such a fund was in my mind anyway. When managing the fund, we still need investor approval, but now we are actively involved in their decisions.

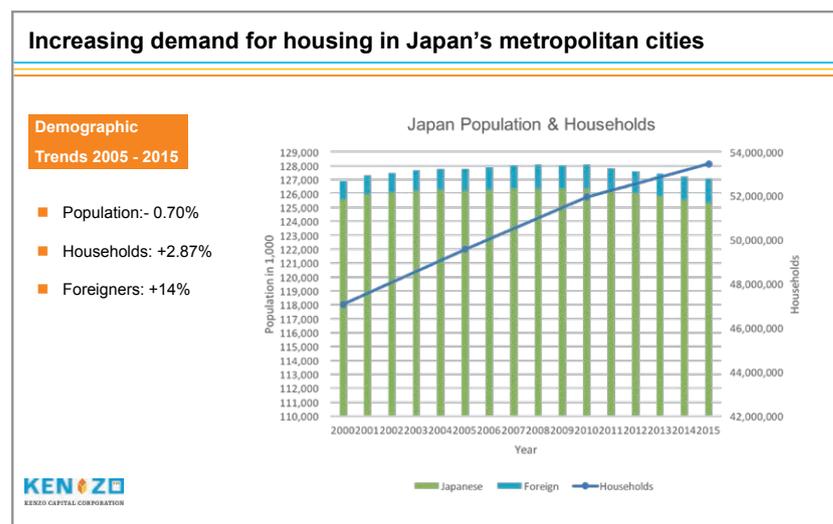
Why did you choose residential real estate as the focus of Kenzo?

First, residential real estate rewards the investor in Japan with a 4% to 4.5% return. That's about 1 to 1.5 points above office yields in Japan. Second, residential returns are much more stable than office returns. Third, investment risks can be more easily diversified with residential property. A small entry into the office market in the business districts of central Tokyo requires 250-350 million euros and one competes with many other bidders. Residential is completely different. We invest 10-25 million euros in one object and have the choice between good locations in the five metropolitan centers Tokyo, Osaka, Nagoya, Fukuoka and Sapporo.



What about the demographic change in Japan – it does not contradict an investment in residential property?

Japan's population is aging and shrinking. That is undeniable. But there are opposing trends, in particular urbanization. Japan's metropolitan areas continue to grow: young rural Japanese are looking for work there, older Japanese people in the countryside move closer to shopping malls and medical care. There is also an increasing number of foreign workers coming to Japan. Our fund invests in affordable housing and is therefore a beneficiary of this strong and long-term change.



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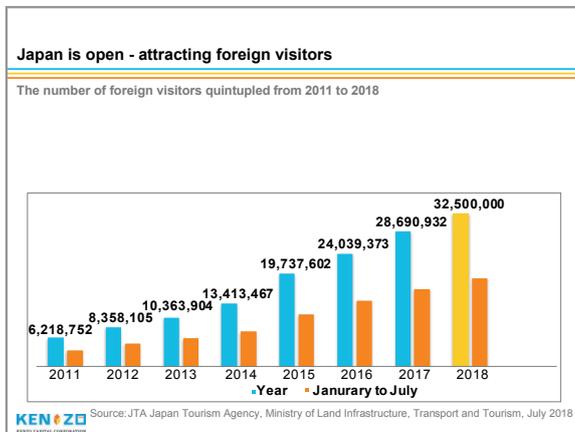
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The Kenzo Japan Residential Fund has been well received by investors. How do you explain this success?

Indeed, half of the equity has already been committed and we have invested 150 million euros so far. By mid-2019 we will reach 250 million euros. The explanation for this success is quite simple: the market is very attractive and the general environment very positive. The government is stable and pro-business oriented. We have full employment in Japan. Deflation has been overcome thanks to the monetary policy of the Bank of Japan. Salaries are rising and rents increasing. The equity ratio of real estate investments is also very solid at 35-40%. Core margins have fallen, but remain attractive by international standards. In the residential sector, you continue to earn significantly more here than in other markets.

In retrospect: What was the most exciting experience of the last ten years?

That is certainly the recognition of our strategy by our Japanese partners. The Japanese appreciate very much that we are bringing long-term, stable capital from Europe. One expression of this trust is the Japanese German Roundtable on Real Estate, which was initiated by the Deputy Minister of the Ministry of Land, Infrastructure and Transport. The Ministry provides for the Japanese and Kenzo for the German participants. This roundtable with top managers from both countries takes place this year for the eighth time. This roundtable also proves that Japan has opened up to the outside world – for international capital and investors as well as for tourists and guest workers. For example, the number of foreign visitors of Japan has increased fivefold since 2011 and the number of foreign workers in Japan has doubled since 2012.



And where do you see Kenzo in ten years?

I founded Kenzo 10 years ago with the vision of creating the competence center for Japan real estate investments for Central European investors. I think in ten years we will have achieved that goal and have become the most recognized investor and advisor to this market. Of course, there are institutional investors who are looking for someone to do everything for them everywhere worldwide. But for investors who prefer a specialist advisor and asset manager, we are the ideal partner.

What makes you so confident?

We focus solely on the Japanese market and our advisory activities are focused solely on German-speaking institutional investors. Our company also has the knowledge under which legal and regulatory conditions these investors can invest in Japan. We also know how risk-averse or risk-friendly their money invested with us is. That's why we can serve each individual investor. No other than Kenzo offers this added value.

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