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WHAT'S NEXT

for

Real Estate and the Life Experience

Global Property Markets: Trends. Cultures. Perspectives.

July 27, 2023 | 12PM ET

FREE and OPEN to all!



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Kai Pan, MAI, CRE®

*Executive Managing Director
National Head of Multi-Housing
JLL Valuation & Advisory Services*



Dr. Leonard Meyer zu Brickwedde
*President & CEO
Kensho Investment Corporation*



Hans Vrensen, CRE®
*Head of Research & Strategy Europe
AEW*

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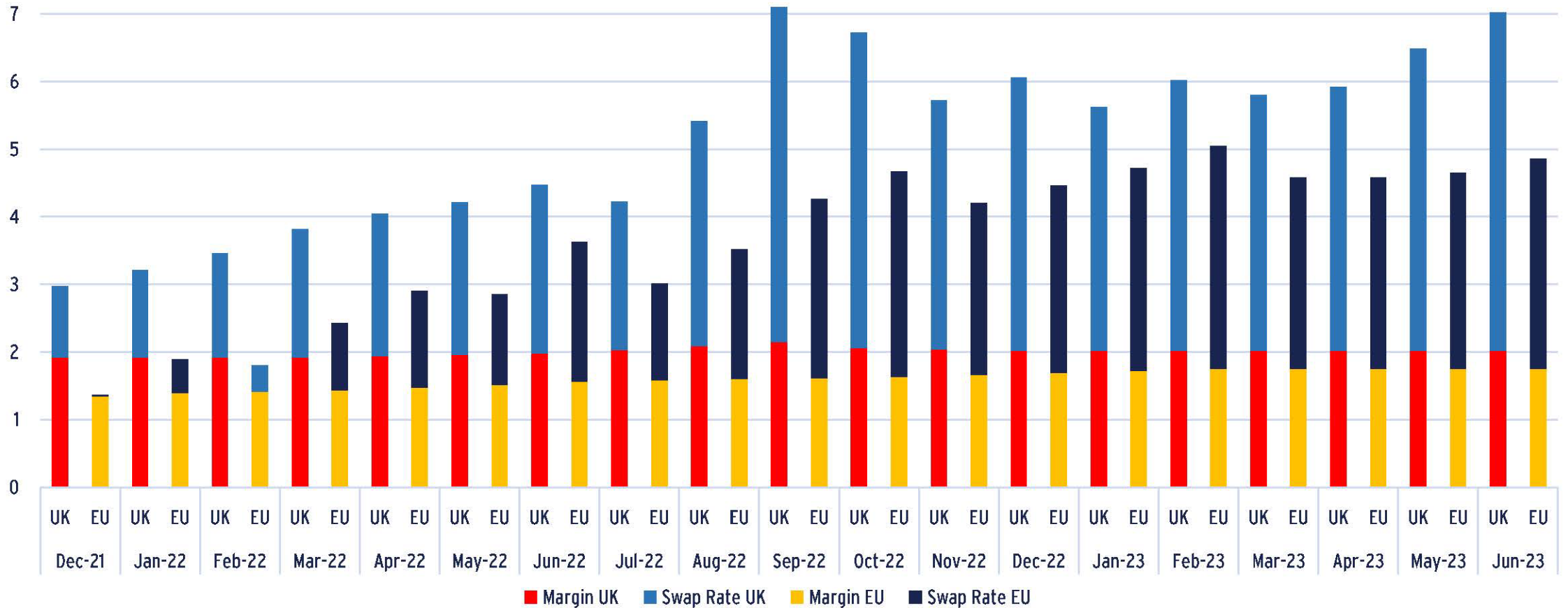
The Counselors of Real Estate

Global Property
Markets:
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Perspectives.

AEW RESEARCH MARKET OUTLOOK

European Borrowing Costs Stabilising Since Year-End

EURO & GBP ALL-IN BORROWING COSTS BASED ON MARGINS FOR COMMERCIAL REAL ESTATE MORTGAGES AND 5-YEAR SWAP RATES (PA %)



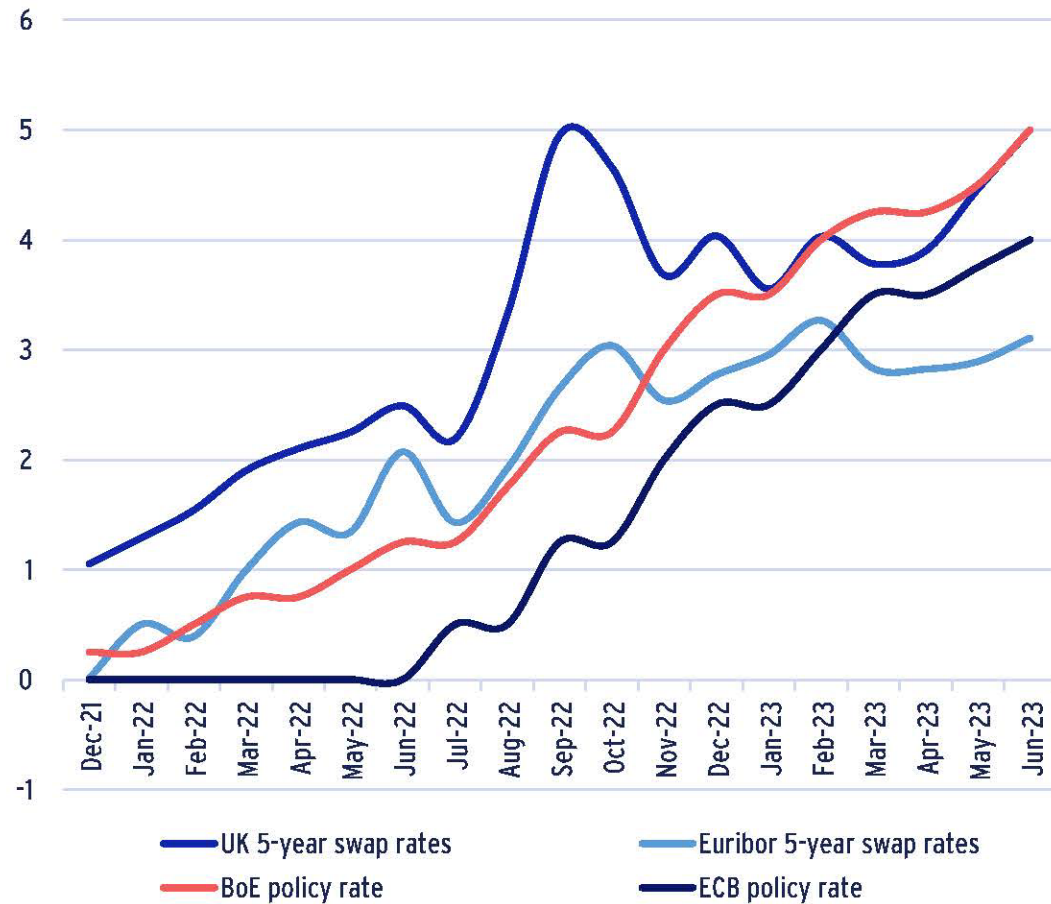
Sources: CBRE, Chatham Financial, AEW Research & Strategy



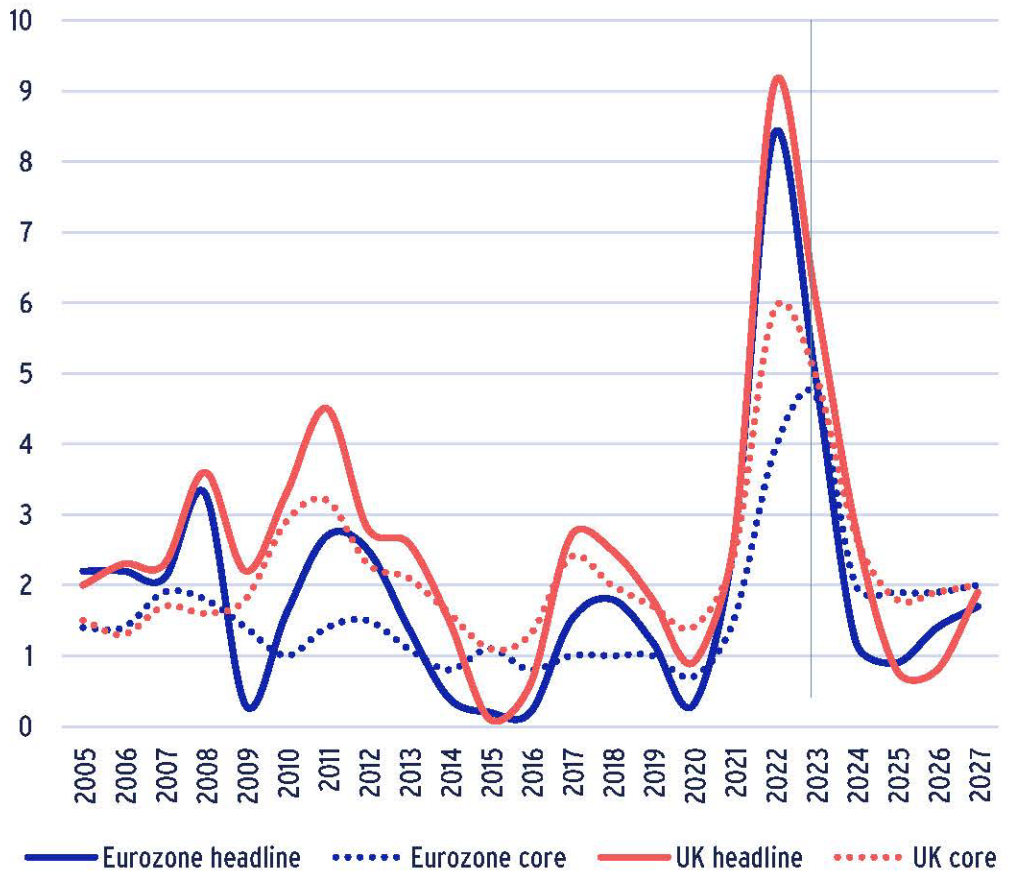
AEW RESEARCH MARKET OUTLOOK

Monetary Tightening is Bringing Inflation Down Now

CENTRAL BANK POLICY RATES AND 5-YEAR (FLOATING TO FIXED) SWAP RATES



AVERAGE CONSUMER PRICE INDEX (CORE AND HEADLINE CPI) CHANGE 2005-2027 (% P.A.)



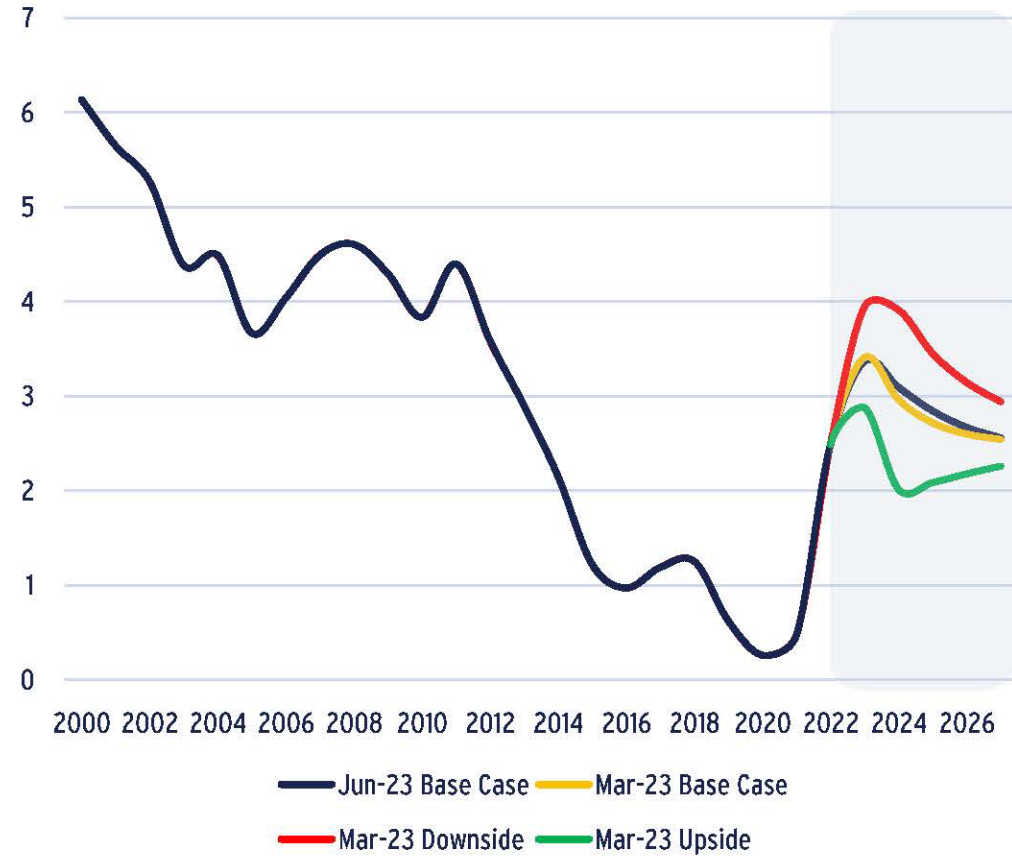
Sources: Oxford Economics and AEW Research & Strategy



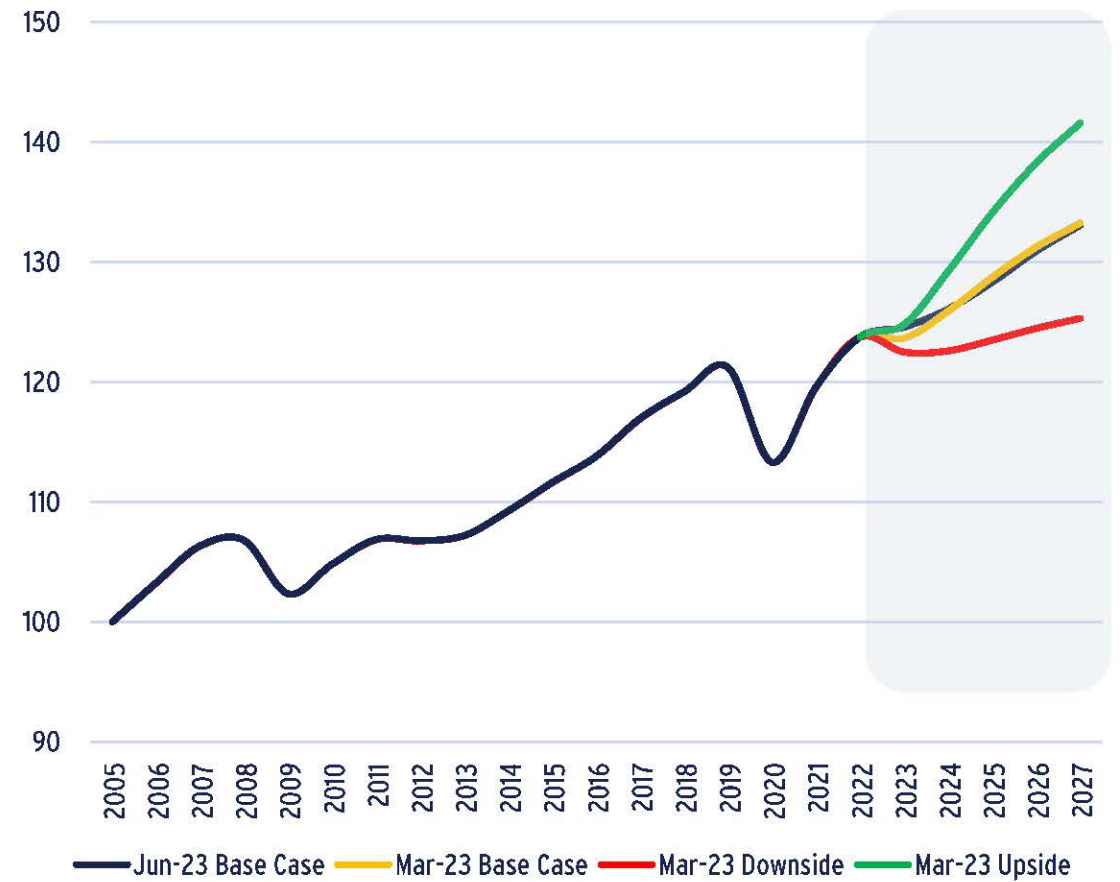
AEW RESEARCH MARKET OUTLOOK

Latest Data Confirms Bond Yields to Peak and Recession Avoided

10YR GOVERNMENT BOND YIELDS (% , EUROPEAN AVERAGE ACROSS 20 COUNTRIES)



EUROPEAN GDP INDEX (% PER ANNUM, 2005=100)



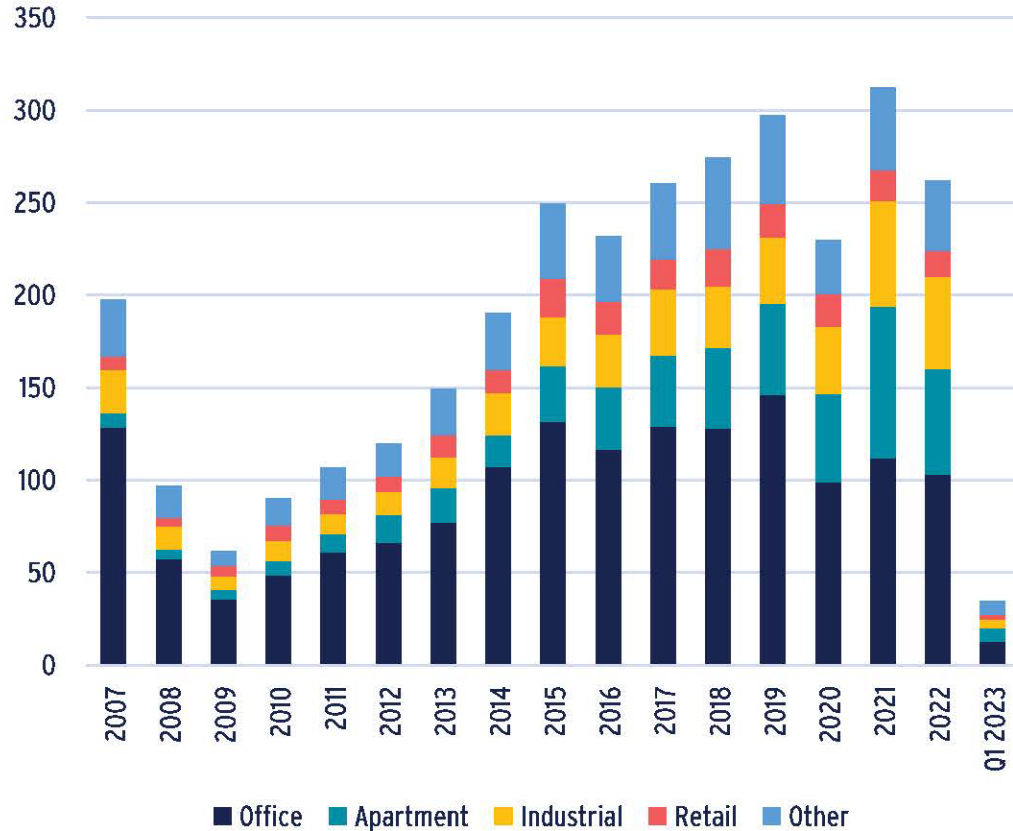
Sources: Oxford Economics and AEW Research & Strategy



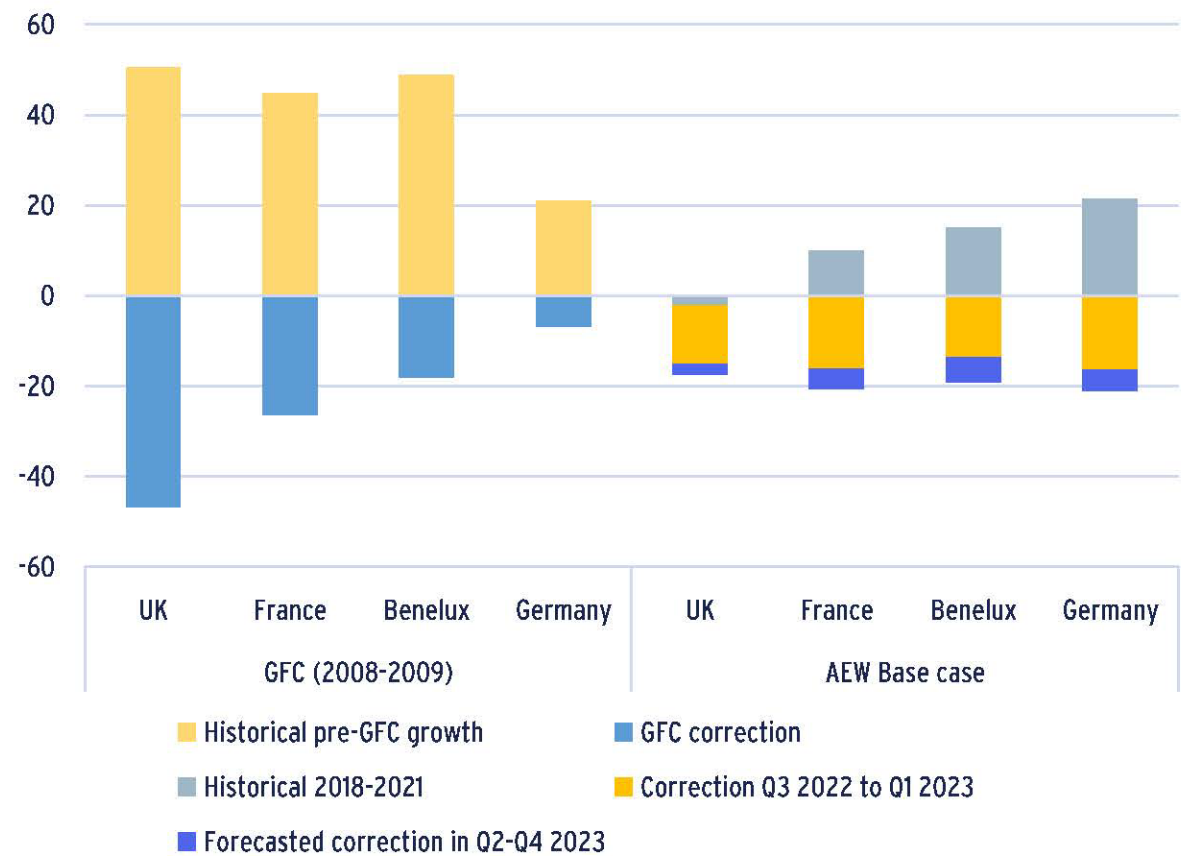
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Lower Deal Volumes as Most of Value Adjustments Already Done

EUROPEAN ANNUAL INVESTMENT VOLUMES BY PROPERTY TYPE (€BN)



FALL IN PROPERTY VALUES %, GLOBAL FINANCIAL CRISIS VS 2022-23 AEW FORECAST



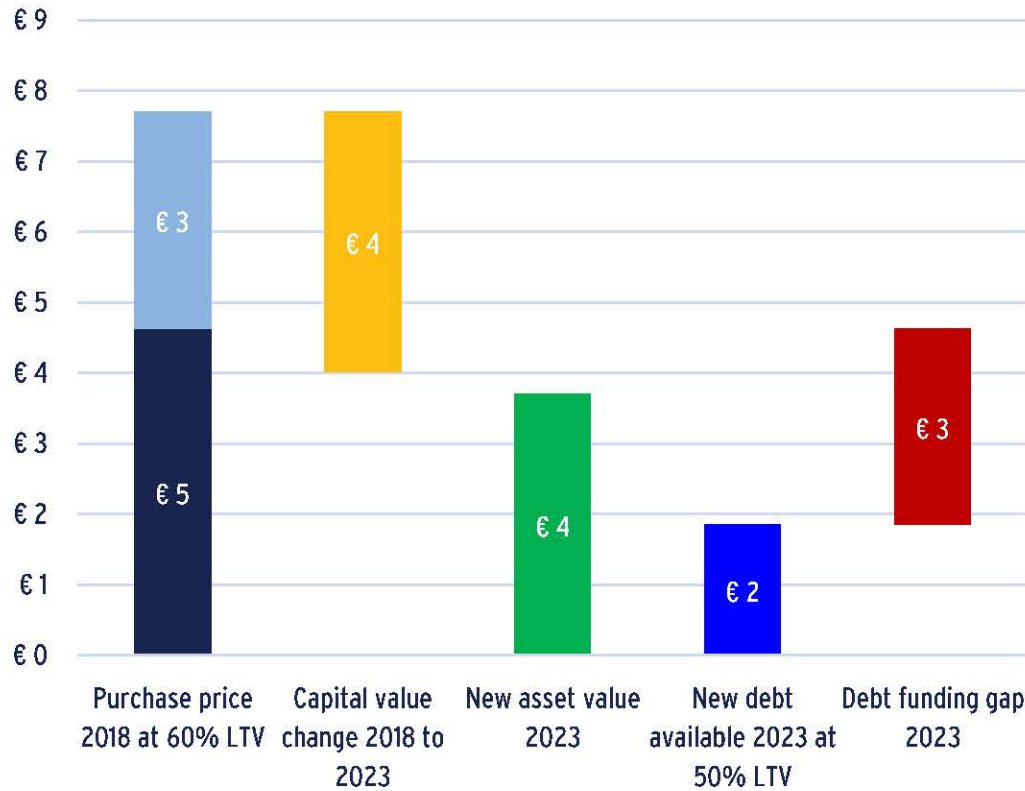
Sources: RCA, CBRE, INREV and AEW Research & Strategy



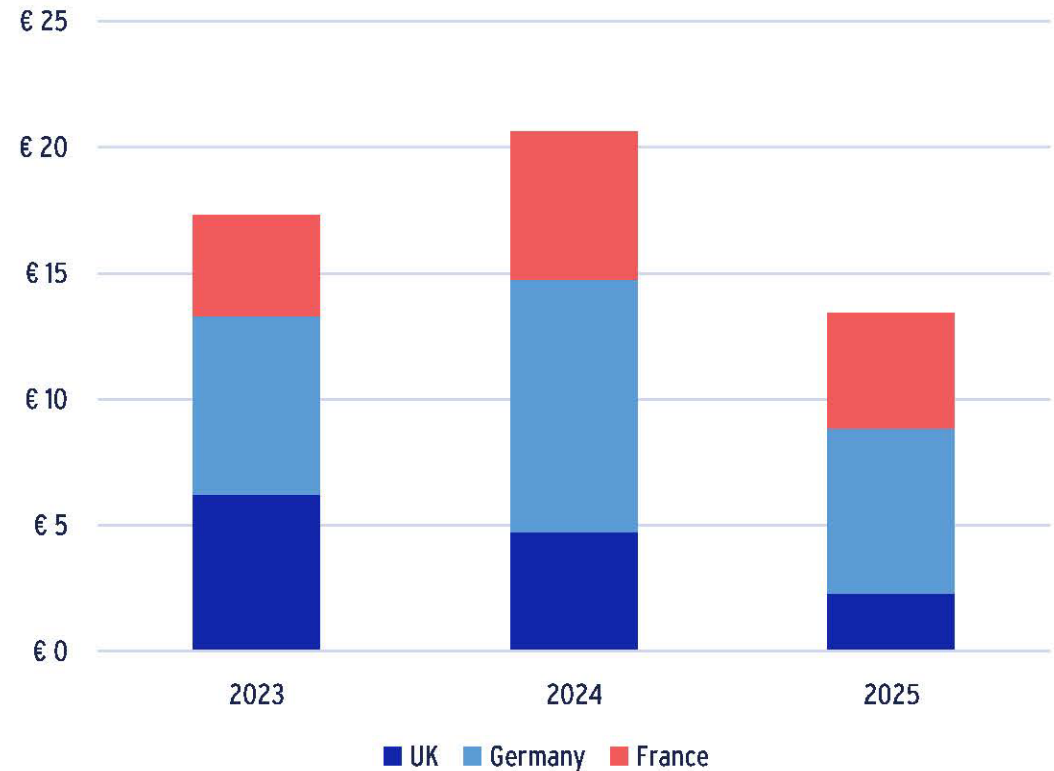
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Cumulative Capital Value Declines Still to Trigger Refinancing Issues

STEP-BY-STEP ESTIMATION OF THE DEBT FUNDING GAP FOR ALL 2018 LOANS SECURED BY UK RETAIL TRANSACTIONS IN EUR BN (DARK BLUE = DEBT, LIGHT BLUE = EQUITY, AMBER = VALUE CHANGE, GREEN = ASSET VALUE, DARK RED = LTV DFG)



LTV DEBT FUNDING GAP BY COUNTRY ACROSS ALL SECTORS BY MATURITY (EUR BN)



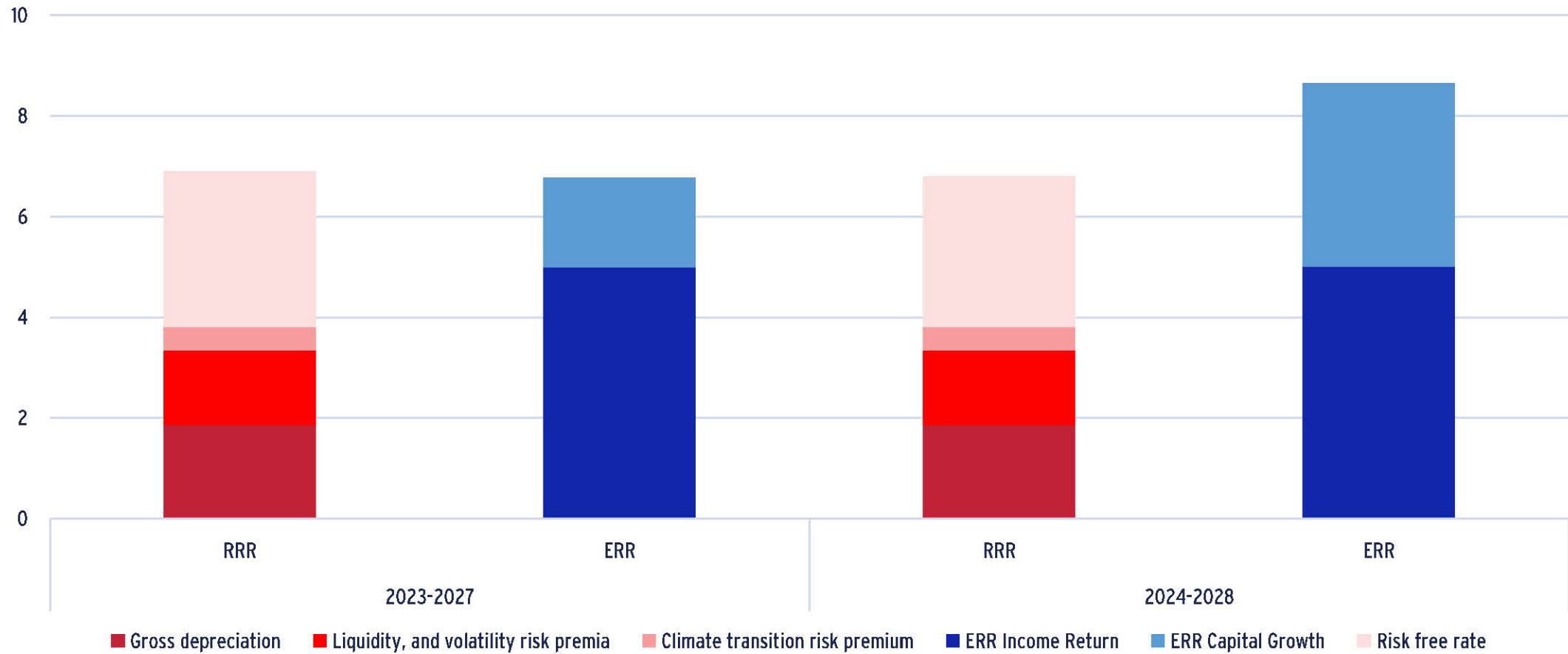
Sources: CBRE, RCA and AEW Research & Strategy



AEW RESEARCH MARKET OUTLOOK

Remaining 2023 Yield Widening Offers Even Better Opportunities in 2024

CHANGES IN REQUIRED (RRR) VS EXPECTED RATE OF RETURN (ERR) ALL SECTORS EUROPE - 2023-27 VS. 2024-28 BASE CASE, %



Sources: CBRE, RCA, INREV, Oxford Economics, OECD, CRREM AEW Research & Strategy





Counselors of Real Estate
Global Property Markets: Trends. Cultures. Perspectives.

Webinar July 27 12:00 noon New York / July 28 1:00am Tokyo

28.07.2023

1. DECOUPLING OF JAPAN FROM DEVELOPMENTS IN EUROPE AND THE US:

- **As confirmed by its new Governor, The Bank of Japan is committed to maintaining the zero-rate policy, while inflation is now running at more than 3%**
- **Japan's government strongly confirmed in July's elections (2022), fiscal initiatives do actually get turned into law**
- **Fiscal regulatory policy continues its pro shareholder track targeting further growth of investments by institutional investor's; different from Europe and US where tax increases on capital gain are being promoted**
- **The government encourages higher stock allocation from retail investors, increasing the limit of household equity investment free of capital gain and dividend tax from JPY 6 million to JPY 8 Million (Euro 60 Thousand)**
- **Japan feels more secure when it comes to energy, by restarting idle nuclear reactors, it can defy high fuel prices, while European countries must buy expensive liquefied natural gas to replace Russian gas**

2. JAPAN AS WINNER OF DE-GLOBALIZATION

- **International investors have rediscovered the Japanese stock market, led by Warren Buffett's investment in the five top trading houses, Nikkei 225 passed the 33,000 mark on July 3, 2023, broad-based TOPIX climbed to 33-year-high**
- **Trend to “friend-shoring” in semiconductors and strengthening of semiconductor supply chains has caused an investment boom in this sector, with investments by TSMC, Samsung and Micron, and close research cooperation between Japan and the U.S.**
- **Focus on cost cutting and overseas production investment has turned into on-shoring investments into human resources and production**
 - **Business investment has become the primary source of positive growth surprises, with both industrial and service sector companies now committed to upgrade domestic factories, local logistics hubs, tech-infrastructure etc.**
 - **Business investment in labor has also turned positive - wages are rising and employment contracts are improving with an increasing number of full-time jobs being created.**
- **Japan is at the center of key strategic initiatives and landmark trade agreements between Asia and the West, including the Indo-Pacific Economic Framework (IPEF) of 2022, the CPTPP Asia-Pacific Free Trade Area, and the "Chip 4" announced by U.S. President Joe Biden in January for a dedicated semiconductor network with Japan, South Korea, and Taiwan**

3. IN JAPAN CAPITALISM WORKS

- **Japan believes in stakeholder value rather than limiting the benefit of success to shareholders and CEOs***
 - **Japan's TOPIX index companies increased their profit since 1995 by 11 times**
 - **US S&P500 index companies increased their profit since 1995 by 6 times**

 - **US average CEO compensation 400 times average salary in the company**
 - **Japan top 50 CEO compensation 50 times average salary (average of all CEOs 12 times)**

- **Japanese office workers return to office**
 - **Trends like quiet quitting (work to rule) and slow living (work less intensively or more relaxed) unknown in Japan**

 - **Japan is able to motivate an increasing share of its citizens to enter the labore market, 54.8% now from 51.3% in 2016:**
 - **while in the past 5 years Japan's total employment rose by 2.48m people to 67.45 million,**
 - **Japan's total population declined by approximately 3.6m to just above 123m.**

*Source: Bloomber – US S&P500 Companies, Japan TOPIX Companies Source: US Economic Policy Institute, Japan top 50 TOPIX companies CEO

4. CONCLUSION

- **For the foreseeable future, Japan will continue to play a special role in many areas of the world economy.**
- **Nevertheless, Japan has not received the attention it deserves as an investment destination for European investors, unlike, for example, Asian and US investors.**