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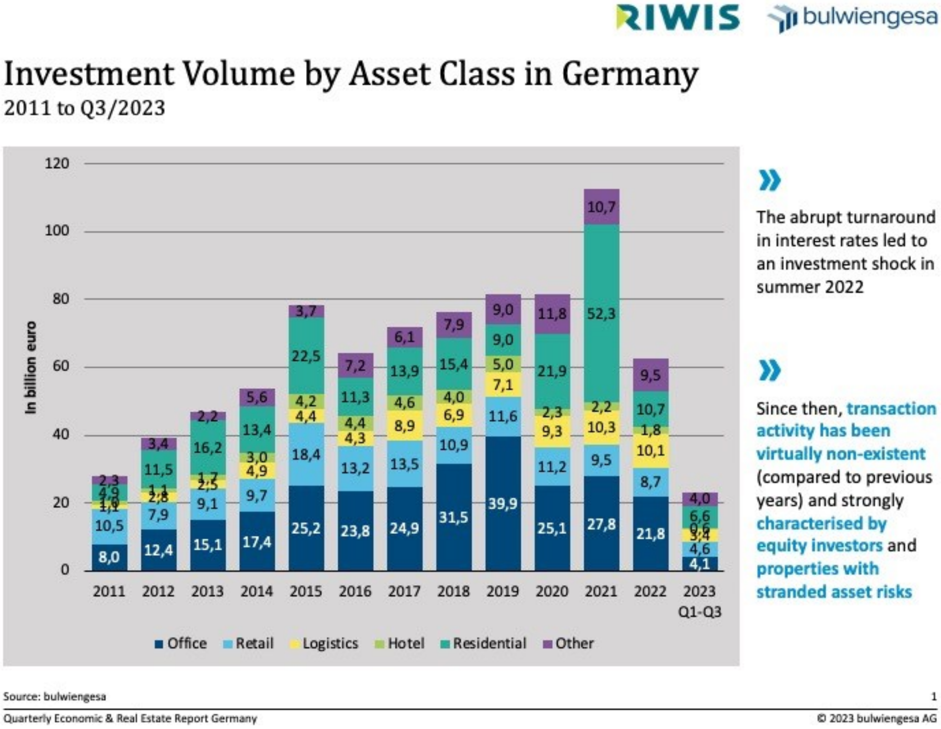
CEO Insight: German real estate market opens unique window of opportunity for Japanese buyers

Japanese investors have a rare buying opportunity in Germany before the core European market is expected to recover from late 2024/early 2025.

The German real estate market is currently experiencing its worst crisis in decades. According to the analytics company bulwiengesa, transaction volumes have plunged by more than three-quarters this year compared with 2021, and prominent developers and construction companies have already gone bankrupt as a result. One symptom of the crisis: Vonovia, the market leader in residential real estate, recently put the construction of 60,000 new homes on hold, even though it estimates there is a shortage of 1 million homes in Germany. Vonovia CEO Rolf Buch cited high construction costs and investor reluctance as reasons for the decision.

Builders and developers in Japan are also suffering from a sharp rise in labor, energy and material costs. The key difference with Germany is monetary policy. The European Central Bank responded to rising inflation with a rapid succession of interest rate hikes from 0.0% in July 2022 to 4.5% in October 2023. The Bank of Japan, on the other hand, followed a steady hand policy, maintaining negative interest rates and yield curve control. In its view, inflation was not driven by stronger demand, but largely by more expensive imports. In contrast to Germany, real estate investors in Japan do not have to hold back and can continue to act.



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The high interest rates in the Eurozone have literally frozen the real estate market in Germany. Firstly, the usual buyers can no longer obtain capital cheaply. Secondly, their hands are often tied because the proportion of real estate in their portfolios has grown beyond the allocation limit due to the loss in value of bonds (as a result of higher interest rates). Hence, developers are stuck with their completed properties and cannot start new projects because their capital is tied up in these properties.

This creates a particularly interesting situation for Japanese investors. Despite the standstill in investment and transactions, the German real estate market is intact: Demand for residential real estate remains high, so rents continue to rise. Office rents can also be increased, as vacancy rates are low. Rents for logistics properties are also at a solid level. One exception is the difficult retail market in city centers.

At the same time, attractive commercial and residential properties, which under normal circumstances would be acquired by German and European institutional investors prior to completion, are currently within the reach of foreign buyers with sufficient liquid funds. As a result, there are excellent opportunities for Japanese investors to enter the German market at attractive conditions.

They should take advantage of these special market conditions soon, as the entry window will close in the foreseeable future. At the "Real Estate Finance Day 2023" on November 15 in Frankfurt, analysts and industry participants agreed that the market will reach its turning point towards the end of 2024/beginning of 2025. Until then, Japanese investors will have a window of nine to twelve months to negotiate the acquisition of commercial, logistics and residential properties in Germany.

The European Central Bank is likely to make its first interest rate cut in April or May. The stock market has already anticipated this turnaround, with the German benchmark index, the Dax, reaching new highs in December. However, it will take some time for the rate cut to stimulate the German real estate market. Typical investors, such as life insurers and pension funds, will have to wait until their portfolios are re-balanced before they have free capital again.

This means that German competitors will have their hands largely tied during this transition period until late 2024/early 2025. Although the weak yen drives up purchase prices in euros from a Japanese perspective, German properties also generate correspondingly high rental income when priced in yen. In addition, prices for good-quality properties in prime locations in Germany will resume their upward trend in the medium term.

Leonard Meyer zu Brickwedde

Dr. Leonard Meyer zu Brickwedde
President and CEO

Kensho Investment Corporation
Sanno Park Tower 3F
2-11-1 Nagata-cho,
Chiyoda-ku, Tokyo 100-6162

Tel: +81(0)3-6205-3039
contact@ken-sho-investment.com