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## Investing in Japan: an American perspective

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The way American analysts and, consequently, American investors see the outlook of the Japanese economy has generally been very negative. It has been conventional wisdom in the United States to dismiss Japan as a second-tier power facing a future of continued and perhaps deepening stagnation. Meanwhile, I feel that during 2002 this perspective has dramatically evolved, from dark cynicism to pragmatism.

I asked in February 2002 to one of my American friends, director of a well-established independent research firm, what she thought about the way American investors would consider the Japanese real estate market. She answered: *“the ONLY reason any US investor has an interest in Japanese real estate is to make quick opportunistic return on a quick flip and then get out of town! No one is interested in long-term investment in Japanese real estate. US investors are executing the greater fool theory of investment in Japan”*.

A few months later, precisely in May 31<sup>st</sup>, MOODY'S downgraded Japan's national bond to A2, i.e. lower than the Botswana who receives Overseas Development Aid from Japan or Kuwait. In its report published in June 10<sup>th</sup>, GOLDMAN SACHS highlighted the multiple contradictions of MOODY'S' analysis and, surprisingly, the fact that “it was not based on any quantitative analysis”. For GOLDMAN SACHS, the appropriate rating was Aaa, i.e. equivalent to the rating of the US or the main European economies.

The PACIFIC COUNCIL ON INTERNATIONAL POLICY, in a report published in November, suggested that, despite its problems, Japan would certainly recover and, in any case, the notion that Japan is now of little importance to Asia and the United States was “dangerously wrong”.

In December a well-known and respected real estate investment consulting firm asked us to provide them with data about the Japanese real estate market. Their reason is; *“Many of our clients have asked how to invest and the benefits of investing in real estate outside the United States. Most of the investors want higher returns for the risk*

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*of investing overseas, so they utilized opportunity funds. For the larger funds, however, the interest moves beyond opportunistic investing to consistent long-term exposure for the diversification of benefits.”*

This new American perspective coincides with our macro-economic analysis of Japan (cf. “Why Japan” in NREIM’s Review Winter 2002): “While its economy is recently showing signs of stabilization, Japan is currently engaging in profound and necessary structural adaptations. These adaptations will both generate investment opportunities in the short term and stimulate growth in the middle term.”