

Why invest your money in Japanese J-REITs?

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Japan has experienced growth and economic stability in recent years. For instance, over the past five years, the Tokyo Stock Exchange Index (Nikkei 225) has seen a 48.5% increase (Rivas, 2022). In contrast, Brazil's stock market index (Ibovespa) has suffered a 3.6% decline over the same period.

Variation of the stock market in Dolár

Country	Index	2021	12 Months	2 Years	3 Years	4 Years	5 Years
Brazil	Ibovespa	-18.00%	-15.90%	-31.80%	-23.80%	-23.10%	-3.60%
Japan	Nikkei 225	-6.10%	-9.20%	13.30%	32.00%	14.60%	48.50%
China	Shanghai Comp	1.80%	-3.70%	11.80%	28.10%	-3.70%	12.40%
Germany	DAX 30	6.90%	8.70%	9.50%	50.00%	21.10%	28.80%
France	CAC 40	18.90%	21.10%	9.70%	54.40%	31.30%	38.30%
United Kingdom	FTSE 100	12.80%	13.90%	-0.90%	16.70%	4.20%	4.30%
Spain	IBEX 35	-0.40%	1.10%	-15.20%	2.00%	-15.50%	-12.20%

Data as of January 17, 2022

Source: Austin Rating.

Japan is the third-largest economy in the world, with a GDP exceeding \$5.2 trillion in 2021 (Ministry of Foreign Affairs, 2021). The country's economy remains stable, despite the significant global impacts of the pandemic, with projected GDP growth of 3.2% in 2022 (International Monetary Fund, 2022).

This environment makes Japan highly attractive for investments, particularly in Real Estate Investment Trusts (J-REITs), which are part of the stock market. In Brazil, these are known as Real Estate Investment Funds (FIIs). As highlighted by Nanette Jacobson, Fixed Income Director at Wellington Management, during an online event in 2022 with InfoMoney and XP Investimentos, "Japanese stocks are valued lower than those in developed markets and have room for further growth" (Rivas, "A Forgotten Market by Investors: Japan is the Bet of American Asset Manager Wellington for 2022," 2022).

Real estate funds provide a simplified means to access property investments. Instead of purchasing a property, investors own a "share" of the real estate through a fund. In Japan, opening an account with a brokerage like Rakuten allows investors to enter the J-REIT market with an investment of around 3,000 yen (Rakuten, 2022). J-REIT shares are traded on the Tokyo Stock Exchange (TYO), with many properties located in Tokyo's metropolitan area or abroad. In Brazil, for around R\$100, investors can participate in these funds (Rakuten, 2022).

Between March 2020 and 2021, the Tokyo Stock Exchange REIT Index outperformed the Topix, rising more than 25% (Government Pension Investment Fund, 2021). In contrast, Brazilian FIIs fell by over 10% in 2020 and ended 2021 with a decline of 2.29% (Wiltgen, 2022). J-REITs tend to pay higher dividends than stocks and are less volatile than most shares traded on the Tokyo Stock Exchange, making them an excellent alternative for diversifying and starting an investment portfolio in Japan (Pimentel, "The 10 REITs with the Highest Dividend Returns in Japan," 2022).

There are over 60 REITs in the Japanese market, with notable ones such as Nippon Building (market capitalization exceeding ¥1 trillion), Japan Real Estate (¥845 billion), and Nomura Master (¥730 billion) (Japan REIT, 2022). Nippon Building, located in Tokyo, was listed on the stock exchange on September 10, 2001, with an initial capital of ¥50 billion (Nippon Building Fund, 2022).

When comparing Nippon Building to one of the largest Brazilian FIIs, the Kinea Índice de Preços Fund (KNIP11), KNIP11 experienced a nearly 10% decline last year, whereas Nippon Building increased by approximately 1% (Thomson Reuters, 2022). In terms of dividend performance, Kinea Índices Preços Fund (KNIP11) had a cumulative dividend yield of 1.31% as of January 31, 2022 (InfoMoney, 2022), while Nippon Building posted a higher dividend yield of 3.5% (Bloomberg, 2022).

Nippon Building (8951T) vs. Kinea Índice de Preços Real Estate Fund (KNIP11.SA)



Data as of March 1, 2022

Source: Thomson Reuters.

What does this data and the graph tell us? In simple terms, it shows how much return your investment would have accumulated over the past year. For example, you would have earned more by investing in Nippon Building than in Kinea Índices Preços Real Estate Investment Fund (KNIP11). Of course, this is just one of the possibilities and attractions of the Japanese market.

You may now be asking, what are the main advantages of investing in J-REITs over FIIs? Japan ranks second in the global REIT market, holding a 9.8% share, second only to the U.S. (Pimentel, 2020). In terms of performance, some REITs have shown attractive short-term, risk-adjusted returns. They offer diversification and income based on dividends—often higher than what you could obtain with other investments. Additionally, unlike common rental income, J-REIT investors are exempt from income tax, instead paying an administrative fee depending on the selected fund (Pimentel,

"Invest in Real Estate Funds in Japan," 2022). Investors receive rental income from the fund as dividends.

Not all funds yield high returns, as both the Japanese and Brazilian equity markets are volatile. However, certain specific funds continue to provide high returns and dividends in 2022, such as Nippon Building. Before investing, it is recommended that readers become familiar with Japan's real estate fund market to choose the best fund for their investment goals.

Finally, J-REITs are particularly preferred by investment funds due to their liquidity and accessibility, adopting acquisition-growth strategies based on specific policies and investment criteria (Nakajima-Magen, 2021). Conversely, other structures are typically used for real estate investments identified from the outset, where asset substitution is not usually expected. When certain legal requirements are met (such as distributing more than 90% of distributable profits annually), J-REITs are exempt from corporate income tax on the dividends they distribute (Withum, 2020).

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