

# Japan's Real Estate and Key Points in Acquisition

Confidential

# Introduction of the speaker

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- You can access my detailed profile on [LinkedIn](#)

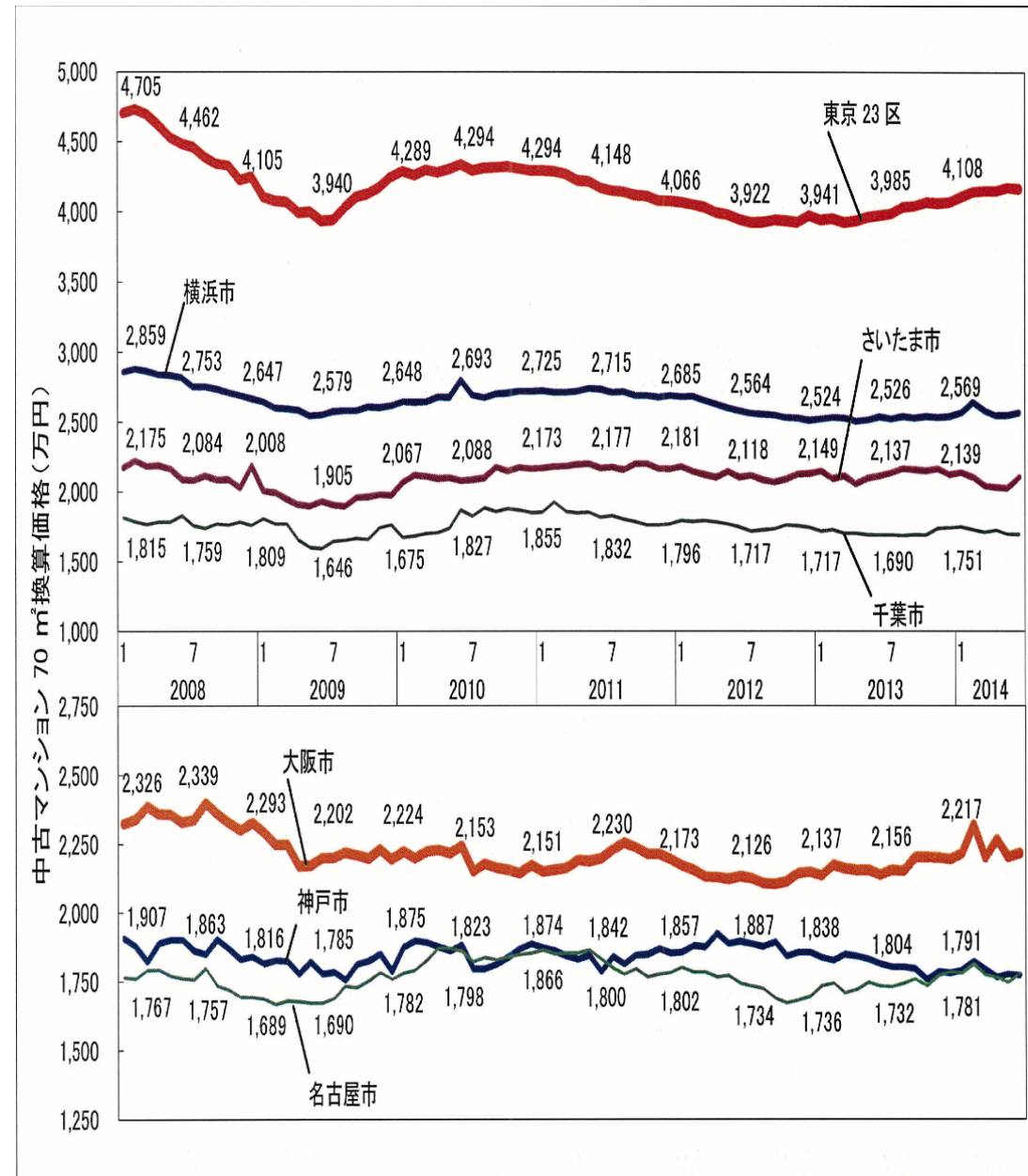
# The points you need to consider before the purchase

- The reason for the purchase
  - Shifting from renting to the purchase
  - Pure investment using additional money
- Economic condition
  - The trend of real estate market in Japan
  - Inflation policy
  - Japanese Yen fluctuation
- How to analyze the profitability of the property
- Actual procedures for the purchase
  - Purchase procedures
  - Getting a Loan

# Trend for Japan's Real Estate Prices

- Real estate was on a rising trend until 2008 but remained low after the Lehman shock. Going forward, prices of new properties are expected to rise due to recent labor cost hike and soaring material costs triggered by the depreciation of yen.
- The announcement that Tokyo will host the 2020 Olympic Games is expected to give momentum to Tokyo's urban redevelopment and keep the real estate market in Tokyo strong.
- Much Consideration is needed to analyze the situation after 2020 is

(Source : TOKYO KANTEI)



# Japanese Economic Policy and Trend for Yen/USD Rates

- Yen continued to appreciate after the Lehman shock in 2008 but, yen has depreciated steadily since the change of government in the late 2012, through corrective measures as part of the economic policies called “Abenomics”.

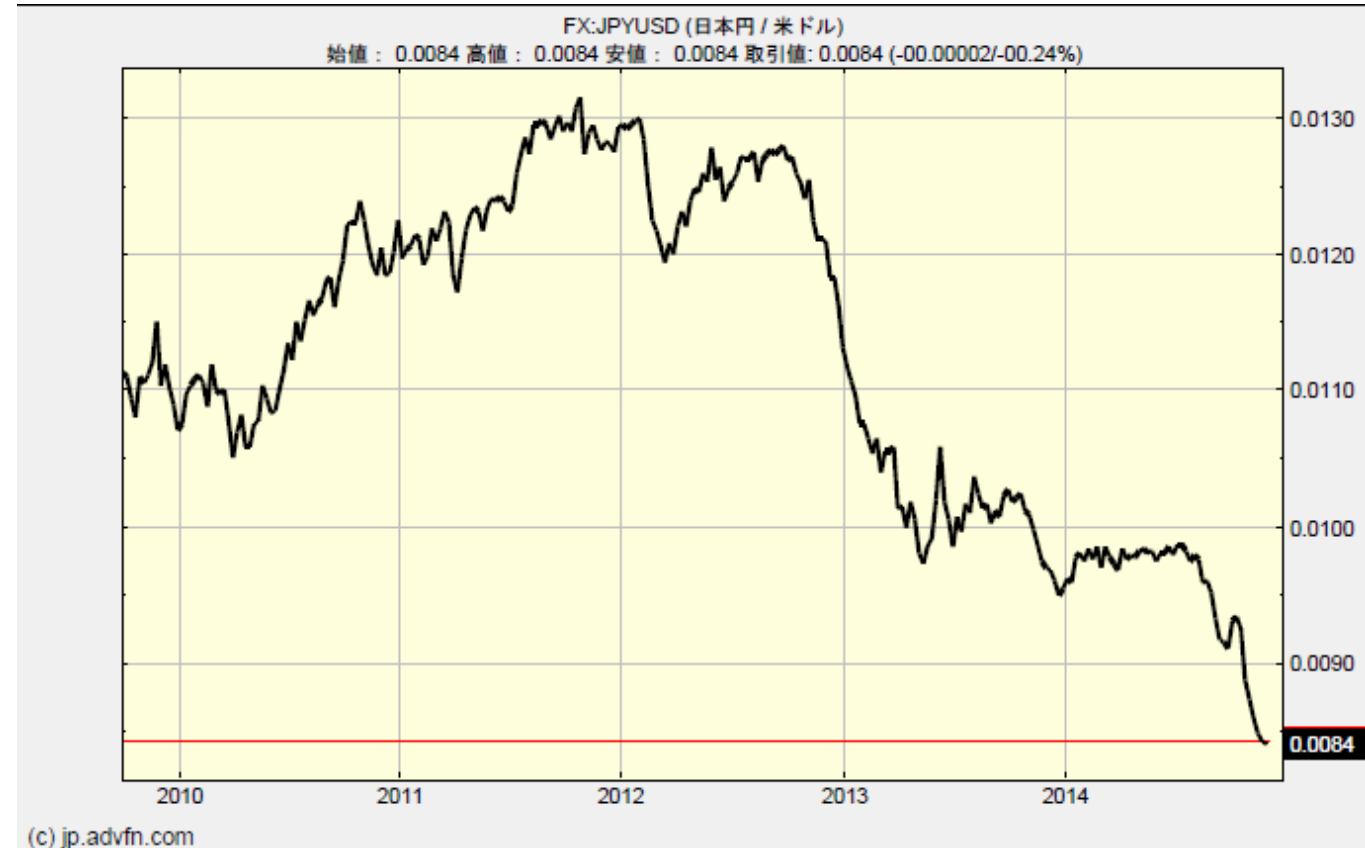
A real property of \$1 million falling to \$0.64 million !!

Around October 2011 0.0132yen/dollar



**0.0084yen/dollar at present !!**

(Chart : Changes in Yen/USD)



# Future Prospect for Yen/USD



Future

Stronger yen

- Now is the time to buy Japan's real estate

Weaker yen

- Replace yen assets with Japan's real estate

# How to analyze the profitability of the property

## ■ How to analyze the profitability of the property

- Calculating actual rate of return(before tax), and compare the rate to the interest rate of the loan
- Cash Flow analysis

## ■ Assumption for the calculation

- Time value is not reflected to the above analysis
- Capital gain is not considered
- Depreciation is not considered for the analysis as in total considering the exit gains/losses, the tax effect regarding the depreciation is the same.

# Indicators of Profitability

$$\text{Gross Rate of Return} = \frac{\begin{array}{c} \text{Rent Income (Gross)} \\ \text{(expected yearly rent at no vacancies)} \end{array}}{\begin{array}{c} \text{Property Price (Gross)} \\ \text{(Purchase Price)} \end{array}} \times 100\%$$

$$\text{Actual Rate of Return} = \frac{\begin{array}{c} \text{(2) Rent Income (Actual)} \end{array}}{\begin{array}{c} \text{(1) Property Price (Actual)} \end{array}} \times 100\%$$

# Actual Property Price

(1) Property Price (Actual)	=	Property Price (Gross)	... price shown in MAISOKU
100%			
	+	Agent Commission	... fee paid to the intermediary agent
3%			
	+	Acquisition Expenses	... stamp duty for the sales contract, etc.
0.1%			
	+	Registration Expenses	... tax for registering ownership transfer
			and commission for a judicial scrivener 1-2%
	+	Loan related Expenses	... costs incurred in obtaining a bank loan
1-2%			
		Property Price (Gross) × 105% ≈ 110%	... billed by the tax office 6 months after purchase
2%			
	+	Real Estate Acquisition Tax	

# Actual Rent Income

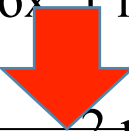
(2) Rent Income (Actual)	=	Rent Income (Gross)	.... price shown in MAISOKU
100%			
	-	Repairing Fund	.... repair costs
0-20%			
	-	Management Fee	.... fees for maintenance of exclusively-owned area
5-10%			
	-	Insurance Premium	.... one year's amount
	-	Miscellaneous Expenses	.... HO association dues, association fees,
			CATV charge, etc.
			up to
property			
	-	Property Tax/City Planning Tax	<u>70%~90%</u>
5-8%			
* and...	-	Vacancy Rate	.... not always fully rented out
			?

# Property Information and Simulation for Income / Expenditure

## [Assumptions]

- Purchase Price : 100 million
- Assessed Value of Real Property : land 35 million, building 15 million
- Rent Income : 9 million yearly, at no vacancies
- Others : Repairing Fund 5%, Vacancy Rate 3%, Management Fee 5%,  
Miscellaneous Costs 3%
- Building's Remaining Depreciable Life : 30 years
- Loan Period : 30 years, Interest Rate : 2.5%

# Property Information and Simulation for Income / Expenditure (Actual Price)

(1) Property Price (Actual)	=	Property Price (Gross)	... price shown in MAISOKU	100 mil. yen
	+	Agent Commission	... fee for the intermediary agent	3.3 mil.
yen				
	+	Stamp Duty	... stamp duty for the sales contract, etc.	0.03 mil.
yen				
	+	Registration Expenses	... tax for registering ownership transfer & commission for a judicial scrivener	approx. 1 mil. yen
	+	Loan related Expenses	... costs incurred in obtaining a loan	approx. 1 mil. yen
	+	Insurance Premiums, etc.	... (in case of a mortgage loan) fire / earthquake insurance	approx. 1 mil. yen
	+	Real Estate Acquisition Tax	...billed by the tax office 6 months after acquisition	2 mil. yen
				
Total:				Approx. 108.3 mil. yen

# Property Information and Simulation for Receipts and Payments (Actual Income)

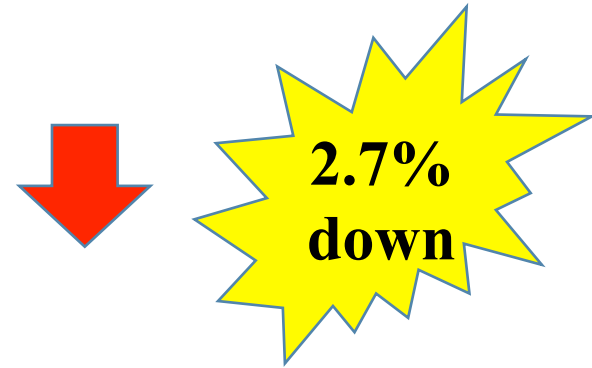
(2) Rent Income (Actual) = Rent Income (Gross): Vacancy Rate at 3%		8.73 mil. yen
- Repairing Fund	... repair costs	Approx. 0.44 mil. yen
- Management Fee	... fees for maintenance of exclusively-owned area	Approx. 0.44 mil. yen
- Miscellaneous Expenses	... Some association fees, CATV charge, etc.	Approx. 0.22 mil. yen
- Property Tax / City Planning Tax		0.85 mil. yen
(tax based on assessed value of the property)		



Net: Approx. 6.78 mil yen
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# Calculation of Actual Rate of Return

$$\text{Gross Rate of Return} = \frac{9 \text{ million yen}}{100 \text{ million yen}} \times 100\% = 9.0\%$$



$$\text{Actual Rate of Return} = \frac{6.78 \text{ million yen}}{108.30 \text{ million yen}} \times 100\% = \mathbf{6.3\%}$$

# Simulation for Income and Expenditure (Income and Expenditure / Cash Flow)

## Income and Expenditure

Income	Rent	8,730,000 yen (3)	Vacancy Rate at 3%
Expense	Mgmt. Fee	436,500 yen	Rent x 5~20%
	Repairs	436,500 yen	Rent x 3 ~ 5%
	Ins. Premium	45,000 yen	Building x 0.15%
	Misc. Expenses	174,600 yen	2% (Mgmt Fee, HO association dues, association fees, CATV charge, etc.)
	Prop/Muni Tax	850,000 yen	Assessed value of the property x 1.7%
	Subtotal	1,942,600 yen (4)a	
	Interest Exp.	2,470,000 yen	In case of a bank loan
	Depreciation Exp.	1,000,000 yen (8)	Building Price /Useful Life (legal remaining depreciable life + elapsed years x 0.2)
	Total	5,412,600 yen (4)b	Actual Rent (3) – (4)a
Pretax Income		3,317,400 yen (3) – (4) b	.... (5)
Income Tax		235,980 yen (5) x tax rate	.... (6)
Net Income		3,081,420 yen (5) – (6)	.... (7)

## Cash Flow

Net Income (7)	3,081,420 yen
Depreciation Exp. (8)	1,000,000 yen
(7) + (8)	<b>4,081,420 yen .... (9)</b>
Principle Repaid (10)	2,260,000 yen
(9) – (10)	<b>1,821,420 yen</b>

# ~Property Purchase Flow~

★In Japan the flow of a property purchase is broadly as follows:

## ① Gathering and refining property information

Gather property information and based on the requirements arrange by priority.  
Price, yield rate, location, scale of the building, etc.



## ② Preview of the property

When possible, actually go to see the candidate properties at the location.  
Unless you go and see in person there are things you cannot know, such as the surrounding environment, etc.  
However, even if you cannot go to Japan, on your behalf it is possible for us to provide information.  
For fully occupied properties an internal preview might not be possible.



## ③ Review

Check gathered information and decide whether to buy.  
At this step, collect price and purchase requirements.



#### **④Submit purchase certificate(Kaitsuakeshoumei)**

Set price and requirements and indicate your intent to purchase.

From here negotiations start with the owner.

For popular properties there are sometimes multiple offers at once.

If taking out a loan, try getting a preliminary review from a financial institution.



#### **⑤Negotiating price terms**

Depending on the property, how far you can negotiate will change.

As much as possible, obtain the seller's circumstance, proceed in good form.



#### **⑥Approaching a loan**

From property information and your situation (annual income, etc.,) confer with a financial institution about what kind of a loan you can get.



### **⑦Purchasing contract**

Once you have a loan examination outcome and price terms, etc., get agreement with the seller and execute a purchasing contract. At that point you pay a “deposit” that is routinely 10% of the property price. If you, as the buyer, are unable to come to Japan, it is possible for us to represent you and conclude the contract.



### **⑧Financial institution contract**

Once the loan examination is decided, execute a contract with the financial institution.



### **⑨Settlement**

At the bank or real estate office, settle the balance of the purchase price excluding the deposit. At the same time, under witness of a judicial scrivener, register the change in ownership and receive from the seller all keys and property documents.



### **⑩Rental management**

In case you delegate property management to a vendor, execute a “management consignment contract.” Please make a comprehensive decision based on management matters and your impression of support, etc.

# Loans

## Screening Criteria for Housing Loans in case of Foreign Residents

- In principle, applicants for housing loans are required to be either Japanese nationals or lawfully admitted permanent residents in Japan.
- Foreigners who are not lawfully admitted permanent residents are required to be married to Japanese nationals or lawfully admitted permanent residents in Japan and also have such spouses act as joint guarantor.
- Those foreigners who do not meet the above requirements may still be eligible for loan screening, depending on availability of their own money (down payment of about 20%), as well as their employer, length of service, income, Japanese language proficiency and so on.

\* Screening criteria or details of conditions differ among financial institutions.

# Rental Property Management Company – Business Outline

## Management Company's Business Outlines (example)

\*[O] marked items are contracted by management company.

	Exclusive Agency Listing	Collection Agency *1	Rental Guarantee (Sublease) *2
Characteristics	Suitable for owners who intend to manage their properties on their own. Management Co acts for them in tenant finding and lease negotiation.	Management Co acts for owners in all aspects of property lease business. Owners are free from complicated human relations or cumbersome business.	Management Co pays to owners a fixed amount every month regardless of whether the property is under lease or not. Owners can expect a stable cash inflow.
Tenant Finding	O	O	O
Tenant Screening	△ (up to research)	O	O
Lease Negotiation	O	O	O
Lease Renewal Negotiation	O	O	O
Lease Cancellation	O	O	O
Move-out Inspection	O	O	O
Restoration to Original State	O	O	O
Equipment Mgmt	O	O	O
Inquiry Reception	O	O	O
Request for Correction		O	O
Demand for Arrears		O	O
Security Deposit Mgmt			O
Compensation for Arrears		△	O
Compensation for Vacancy			O

\*1: There is also some with guarantee for arrears.

\*2: There is also some with compensation for restoration to original condition.

# What can SX Promotion provide?

- 1 . Listen to your requests and introduce properties in line with your hopes.
- 2 . Introduce regional properties with a good yield rate
- 3 . Introduce management companies.
- 4 . Provide visa support, such as the investment management visa, etc
- 5 . It is also possible to introduce properties outside of Japan in Asia and the Americas, etc.

## Contact Information

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