



Asset Management Market Guide: Japan

Standard Unit of Measurement	Unit of Measurement	Tsubo (1 tsubo = 3.3 sqm = 35.58 sq ft); sqm is also available in some cases	In Japan, leasable area is indicated as net (gross or semi-gross is rare). Area is generally defined by the completion drawing (survey).
Transaction Fees	Agency Fee (expressed as X months rent)	One month (net rent)	Property management is generally outsourced, and lease renewals are included in the scope of the property manager. Lease renewal fees are not common for office tenants, while for landlords, it depends on the property management agreement.
	Agency Fee (payable by landlord/tenant)	Tenant or landlord (payable from both, but the limit is one month)	
	Legal Fees (payable by landlord/tenant)	Each party bears their own legal costs	
Rental Payment Fees	Rents	Japanese yen per tsubo per month; Japanese yen per sqm per month may also be stated in the lease Rents are expressed as face in the market as incentives are common.	As the effects of the financial crisis flows through to the real estate economy, tenant demand is contracting in the office, industrial and retail sectors. Vacancy rates in markets around the globe are rising and leasing volumes are slowing, resulting in declining rents. Given the difficult operating environment, businesses around the globe are consolidating their space requirements. Tenants are more carefully conducting due diligence of landlords' terms before signing new leases or renewing current ones. This includes greater scrutiny of the capital or sponsor behind the landlord to ascertain if the building itself has the capital to underwrite the terms of the lease. Tenants are asking new questions about sponsorship and are questioning landlords' ability to pay down debt or commit liquidity to planned or required maintenance. Owners can differentiate their properties based on their ability to address these tenant concerns.
	Typical Lease Term	Standard leases typically two to three years with similar duration for renewals Fixed-term leases usually three to five years but can be longer	Current tenant demand is being driven primarily by relocations, as well as downsizing and consolidation, as companies channel their efforts toward reducing capital expenditure.
	Frequency of Rent Payable (in advance)	Monthly (at the end of the previous month)	Leases in Japan are covered under the <i>Civil Law/Land Lease and House Lease Act</i> provisions.
	Rent Deposit (expressed as X months rent)	12 months is standard (five to six months may be applicable depending on the leasing strategy)	A rent deposit may be used as a form of guarantee, to offset any debt by the lessee, such as payment delinquency. This takes the form of a monetary deposit paid to the Lessor by the Lessee - usually amounting to several months' rent with common area maintenance (CAM) or 'outgoings' charge not included - to be returned at the termination of the lease. The <i>Land Lease and House Lease Act</i> protects the Lessee.
	Security of Tenure	Security of tenure is fragile as early termination under the regular lease contract of two to three years is normally allowed with six months prior written notice	
	Statutory Right to Renewal	Yes – standard lease No – fixed-term lease	
	Basis of Rent Increases or Rent Review	A negotiated amount based on an open market rental value	
Frequency of Rent Increases or Rent Review	Typically at lease renewal; but with traditional leases, it can be at any time during the term if the market rent has substantially increased or decreased Rents may not be varied for a fixed term unless otherwise agreed		



Taxation	Stamp Duty	Not mandatory	<p>Property-related taxes include Fixed Asset Tax (FAT), which is levied on land and buildings used for business purposes as of January 1 every year by the municipality where the fixed assets are located.</p> <p>City Planning Tax is levied on land and buildings located in certain urban areas as a surcharge to the FAT.</p> <p>These and other tax on depreciable assets are included in the rent and are not charged separately to the tenant.</p>
	Local Property Taxes	<p>Landlord</p> <p>The annual Fixed Asset Tax is 1.4% (payable every quarter)</p> <p>The annual City Planning Tax rate is 0.3%, which is applied to the asset value for Fixed Asset Tax purpose</p>	
	VAT/GST Payable on Rent and Service Charge	Consumption tax – 5% (tax-free for residential premises)	
Disposal Of Leases	Sub-letting and Assignment	<p>Sub-letting or shared lease is generally permitted to tenant-related companies (must be approved by the lessor)</p> <p>Rights to sub-lease to an unrelated or third-party tenant are typically prohibited</p>	<p>Assignment or sub-lease provisions are common, but they are usually subject to landlords' approval.</p> <p>Termination within the initial lease term usually requires the repayment of any rent-free period. This is typically not allowed under a fixed-term lease.</p> <p>Reinstatement back to the base building involves taking the premises back to its original condition. Some tenants seek to limit this element when taking on an existing fit-out. It is important to document the condition of the premises prior to a tenant's occupation.</p>
	Early Termination	Normally allowed with six months prior written notice or immediately by paying six months of gross rent in advance	
	Tenant's Building Reinstatement Responsibilities at Lease End	Original condition	
Service Charges, Operating Costs, Repairs, and Insurance	Service Charges/ Management Fees	<p>Additional to the rental charge and payable monthly in advance</p> <p>The service or common area maintenance charge may be included in the lease rent</p>	<p>Gross charge is commonly applied in Japan.</p> <p>CAM charges are the fees charged on top of the monthly rent of a building and its site. These generally include utilities, cleaning, repair, maintenance, security, and air-conditioning fees. CAM charges are not reviewed, revised and reconciled once they are fixed on a certain amount. As such, the landlord is commonly responsible for any deficit.</p>
	Utilities	<p>Electricity and after-core hour HVAC charges are separately metered and payable by each tenant</p> <p>Telecommunication is separately payable, typically to the vendor</p>	
	Car Parking	Where parking is available, it is held under a separate monthly lease for an additional rent	
	Internal	Tenant (a "re-decoration clause" is normally included)	
	Common Parts (reception, lifts, stairs, etc.)	Landlord (charged back via service charge)	
	External/Structural	Landlord	
	Building Insurance	Landlord	



Purchasing Property	Land Title	Freehold Leasehold	<p>Given the continued difficulties in funding conditions and the considerable gap between asking and bidding prices, the number of large transactions decreased sharply.</p> <p>Title for land and building is registered and administrated under the <i>Real Estate Registration Act</i>. Ownership is required to be registered with the Minister of Land, Infrastructure and Transportation.</p> <p>Shintaku juekiken (beneficial interest) in trust is the entitlement to receive benefits generated by assets held in another party's name, such as a trustee. In principle, beneficial interest in trust can be divided and transferred. Investors can take advantage of its lower transfer cost and credit-insured characteristics in place of real estate transactions.</p> <p>Comprehensive due diligence is very important since transparency has improved but still not significantly in Japan.</p> <p>There is a <i>Strata Titles Management Act</i> in Japan, which details the requirements for the management of strata-titled properties.</p> <p>Consumption tax is imposed only on buildings, not on land, and is applied against the transaction value of the buildings.</p> <p>Japan has double taxation treaties with a number of countries. As such, the creation of tax-effective special-purpose vehicles to limit tax is an option.</p> <p>In Japan, some tax incentive programs may be provided for a certain period; therefore, tax advice should be sought.</p>
	Foreign Ownership	No restrictions	
	Strata Title (partial ownership of the building)	Strata-titled ownership is available for large-scale buildings and redevelopment projects, but it is less common for small-sized to mid-sized buildings	
	Security Deposit	Varies by transaction	
	Agency Fees	Maximum fee is 3% of the sales price plus JPY 60,000 when the sales price is over JPY 4 million	
	Legal Fees	No uniform standard – varies according to each party's requirement and the extent of legal services required	
	Stamp Duty	Varies according to the sales price Payable in equal parts by both parties	
	Other Transaction Costs	Consumption tax: 5% sales price Acquisition tax: Building at 4% tax asset value; land at 3% tax asset value (standard) Registration tax: 2% (standard)	



Market Conditions Snapshot: Japan

A key element of asset management is to consider the long-term results of current decision making by looking into the future and potential markets dynamics to limit risks and increase returns. The following table provides an outlook for the major markets in Japan over the coming five years. To find out what current market conditions mean for your asset on a tenant-by-tenant and return basis, please don't hesitate to contact one of our Asset Management Services specialists.

Market	2010	2011	2012	2013	2014	Remarks
Tokyo						Leasing demand in the core area is still weak but a relatively subdued future supply pipeline, anticipated economic recovery and relocation of tenants from outside the 3-kus are expected to bring the vacancy rate down below the frictional level by early 2011. Rents are starting to stabilise after steep declines in the last two years, and strong rental growth is projected between 2011 and 2014.
Osaka						The Osaka market faces an impending oversupply situation with lacklustre demand. New supply of 0.5 million sqm (39% of existing Grade A stock) is expected to come on-stream by end-2014. Rental values are expected to decline until at least end-2012 given that vacancy rates are on the rise.

- Timing for lease expiries and rent reviews should be avoided
- Market uncertainty – timing for lease expiries improving
- Landlord market forecast – good timing for lease expiry and rent reviews.

Source: Jones Lang LaSalle



Asset Management Services

Jones Lang LaSalle Asset Management Services delivers tailored solutions for asset managers and owners to remotely manage diverse regional portfolios and to maximize revenue and asset value across the investment life cycle of the assets.

Our regional platform and experience in asset planning and strategy, tenancy management, and portfolio property management enable you to create efficient management structures, optimize your cash flow, and minimize your risk.

We provide bilingual support in local markets while ensuring consistent service delivery through a centralized regional coordination point. This is backed up by our regional best-practice operational infrastructure and financial reporting capabilities.

No other service provider in Asia Pacific can match our market penetration or expertise in providing asset management services, and we are the only real estate services company to offer a true regional service and platform.

Our Property and Asset Management division has more than 575 million sq ft under management, with 9,000 staff members across the region. The Asset Management Services group manages more than 27 million sq ft of this space across 135 sites for 14 clients.

With Jones Lang LaSalle, you benefit from the international exposure and financial stability that can only come from one of the leading global real estate services companies.





The Authors



Richard Fennell
Head of Asset Management Services, Asia Pacific

Richard has over 15 years of experience in property and asset management and is currently responsible for Asset Management Services across the Asia Pacific region. He manages a large group within Jones Lang LaSalle and is tasked with providing consistent service delivery for clients across Asia Pacific. Richard is also the direct regional contact for South Asia and is based in Singapore and Australia.



Yohei Watanabe
Senior Manager, Investor Support

Yohei Watanabe joined Jones Lang LaSalle Japan in June 2003. He has over six years' experience in the real estate industry and currently provides asset management in Investor Support. His experience includes office building management such as property management, operational asset management, tenant leasing, tenancy management, and Due Diligence. He holds a B.A., International Relations from Sophia University.



Midori Suzuki
Head of Asset Management Services, Japan

Midori has over 20 years of experience in asset management, consulting, and workouts. Midori's clients include a number of major global investment funds and financial institutions. Midori holds a Bachelor of Engineering (Architecture and Building Engineering) and a Master of Science (Real Estate Development) degree. She is a registered architect (first grade) and a licensed broker in Japan.



Takeshi Akagi
Local Director, Research and Advisory

Takeshi Akagi heads the Research and Advisory teams for Jones Lang LaSalle in Japan. Prior to joining Jones Lang LaSalle, he had 15 years' experience in real estate at a domestic developer. Takeshi is a well known commentator on the real estate market, regularly appearing in the media and speaking at industry seminars.

FOR MORE INFORMATION

Richard Fennell
Head of Asset Management Services, Asia Pacific
Tel. +61 2 9220 8690
richard.fennell@ap.jll.com

Michael George
Head of Asset Management Services, Australasia
Tel. +61 2 9033 0302
michael.george@ap.jll.com

Lt Col (Retd) Ashutosh Beri
Managing Director, Property and Asset
Management, India
Tel. +91 124 4083390
ashutosh.beri@ap.jll.com

James Peterson
Head of Asset Management Services, Greater China
Tel. +852 2846 5761
james.peterson@ap.jll.com

Midori Suzuki
Head of Asset Management Services, Japan
Tel. +81 3 5210 8323
midori.suzuki@ap.jll.com

WWW.JONESLANGLASALLE.COM

© JONES LANG LASALLE 2010. All rights reserved. All information contained herein is from sources deemed reliable; however, no representation of warranty is made to the accuracy thereof.