

## Tokyo turns to tomorrow

By Christopher Dillon

Published in the *Financial Times* on September 18, 2010

<http://www.ft.com/cms/s/2/249881ba-c11e-11df-afe0-00144feab49a.html>

Mention Japan and real estate and the next word that springs to mind is usually “expensive”. But two decades of deflation have seen steady declines in Japanese land values, with prices in Tokyo falling 11.3 per cent in 2009 alone. And the rapid economic development of neighbouring countries has also made Japanese property more affordable in relative terms.

“If you avoid the expat residential areas, a detached house in central Tokyo is significantly cheaper than the equivalent in New York, Paris or London,” says Frank Sylvian, a financial services executive who recently bought a house in Tokyo’s Shinjuku ward.

As in other markets, location plays a key role in property prices. Homes in Tokyo generally cost more than comparable dwellings in other parts of Japan, with prices kept high by students, job hunters, businesspeople and even retirees migrating to the capital from secondary cities and rural areas. The Tokyo Metropolitan Area, which includes neighbouring Chiba, Kanagawa and Saitama prefectures, gained more than 117,000 residents in 2009.

Employment is one of Tokyo’s main attractions. But there are others, such as galleries stocked with Monets, Picassos and Rothkos, and the record 11 restaurants that received Michelin’s coveted three-star designation last year. The city’s parks are another draw, says John Kirch, an American who custom-built a family home in the Shimouma district of Tokyo’s Setagaya-ku. “Shimouma has more than 10 parks within a 10-minute bicycle ride,” notes Kirch, who also likes the neighbourhood’s proximity to Shibuya, one of Tokyo’s main transport hubs.

The egalitarian nature of Japanese society and the country’s extensive, reliable rail network means nearly everyone uses public transport. As a result, homes with convenient access to important hubs, such as Ikebukuro, Shinagawa, Shinjuku and Ueno stations in Tokyo, command a premium. Properties inside the Yamanote train line, which circles central Tokyo, are also popular.

Another influence on a home’s price is the distance to the nearest train or subway station. A 2007 study by the Centre for Spatial Information and Science at the University of Tokyo noted that values for pre-owned condominiums in the Tokyo area fell when a home was more than 12 minutes’ walk from a station. Prices fell again at the 17-minute mark, the point at which most people take a bus, bicycle or car to the station.

Anyone living in a Japanese city must choose between a small, expensive home near the centre and a larger, less costly one further out. For example, ¥28m (£213,618) will buy you a 40 sq metre condominium in Higashi Ginza, near the Tsukiji fish market and 14 minutes from Tokyo Station. For ¥5m more, you can own a 78 sq metre condominium in suburban Tachikawa, an hour from Tokyo Station. Both units were completed in 2004, feature a balcony and southern exposure, and include land ownership rights.

Those rights are important because land and buildings are separate legal entities, and houses and condominiums are often built on leased land and then sold without land rights. “My wife and I were looking for an investment property in Tokyo,” says David Armitage, a Hong Kong-based entrepreneur. “We were surprised to learn that one condo we were considering didn’t include land rights. Without those rights, the deal was a non-starter. In the end, we walked away.”

In Japan leasehold properties are undesirable because land retains its value and buildings depreciate quickly. Land leases usually have a 50-year term, not 999 years as is common in Britain and many Commonwealth countries, making it harder to resell these homes. Purchasers of leasehold property might also have difficulty arranging financing, exacerbating a long-standing frustration for non-Japanese buyers.

“Foreigners buying residential and investment properties are a small part of the overall Japanese mortgage market, so domestic banks have largely ignored them,” notes Richard Harris, general manager, Japan, for Commonwealth Bank of Australia, which offers mortgages to Japanese and foreign home buyers, including non-residents.

National Australia Bank also targets this market with foreigner-friendly products and English-language application forms, as do mid-size local lenders such as Shinsei Bank and Suruga Bank. There are even signs that the nation’s mega-banks are becoming more welcoming to non-Japanese home buyers, who can purchase land and homes in Japan without restriction.

That’s good news if you are looking for a new or used house or condominium in the Tokyo, Yokohama, Osaka and Nagoya areas. But anyone buying a less conventional property will need access to cash. Banks rarely provide mortgages for the purchase of repossessed homes and it is difficult to obtain financing for dwellings outside big cities, for recreational property or for rural land, which sells for as little as ¥4m per acre.

However, banks will provide financing for income properties, such as centrally located, 15-30 sq metre apartments in Tokyo. These homes are often spartan, comprising a single room, a kitchenette and a tiny bathroom. “With prices starting at about ¥4m, older apartments in gritty areas like Adachi-ku and Katsushika-ku can generate gross yields of 12 per cent. They aren’t pretty but they can be profitable,” says Erik Oskamp, president of Akasaka Real Estate in Tokyo.

Whether you are buying for your own use or as an investment, a home’s construction date can provide useful clues about its ability to withstand a major earthquake. Seismic retrofitting is optional, so structures built before construction standards were tightened in 1981 might be vulnerable. Standards were raised again in 2000, when the Housing Quality Assurance Act (HQAA) took effect.

The introduction of the HQAA, which included mandatory warranties for new homes and uniform standards for measuring building performance and energy efficiency, was a turning point for Japan’s construction industry. Previously, homes were seen as consumable goods with a typical lifespan of 30 years, compared with 55 years in the US and 77 years in Britain.

The government is now encouraging the construction of long-life homes that can be refurbished as a way of reducing CO2 emissions and demand for landfill space. This has been matched with subsidies and tax breaks for the installation of photovoltaic panels and other energy-saving measures.

After years of being draughty and poorly insulated, new Japanese homes are among the most environmentally friendly. "Today, urban residents are demanding – and getting – high-performance buildings that meet global clean-energy standards," says Jared Braiterman, the founder of Tokyo Green Space, an urban ecology consultancy.

---

*Akasaka Real Estate, tel: +813 6379 9175, [www.akasakarealestate.com](http://www.akasakarealestate.com);*

*Coldwell Banker Tokyo, tel: +813 5771 1411, [www.coldwellbankertokyo.com](http://www.coldwellbankertokyo.com)*

*Christopher Dillon is the author of 'Landed: The guide to buying property in Japan', [www.landedbook.com](http://www.landedbook.com)*

---

## **Capital investment**

### **Pros:**

- Prices are reasonable.
- No restrictions on foreign ownership.
- Mortgages available from international lenders.
- Excellent public transport.

### **Cons:**

- All sales documents in Japanese.
- Yen now at a 15-year high versus the US dollar.
- Limited supply of older homes.
- Earthquakes common.

### **What you get for...**

- \$100,000 would buy you a one-room apartment in a 26-year-old building seven minutes' walk from Tokyo's Ikebukuro station.
- \$1m would buy you a three-storey, 10-year-old house in Shirokane, a popular residential neighbourhood in Tokyo.