

## Introductory Real Estate Workshop

### Hokkaido Multinational Support Community

**June 17 Sunday 13:30 @ Sapporo International Community Plaza**

Today we were fortunate to have Mr. Tomoo Sono, an independent licensed realtor, with ResCom HOKKAIDO, LLC, [OVNY@ResComHokkaido.com](mailto:OVNY@ResComHokkaido.com) speak to those who were interested in a broad range of real estate transactions. Tomoo spent many years living in the States. He returned to Hokkaido a few years ago and obtained his real estate license. Being fluent in English, he has a special desire to help foreign residents to cope with their real estate needs.

He began his talk by looking at the process steps involved in purchasing a home (new or pre-owned, building a home (developer/custom) or renting a home/apartment. He outlined the various steps one typically goes through from the buyer's property criteria, viewing properties located by the realtor, written offers, deposit money to hold the property, buyer qualification check and financial capacity, legal disclosure, contract and fees involved and concluding with possession of the property.

He pointed out the different requirements based upon whether the buyer is an individual (foreign or Japanese) or a company. This covered proof of identification documents which for foreigners in Japan would be a residence card and passport, while foreigners outside of Japan, wishing to come live here, would have more stringent identification requirements. We focused on individual ownership for those at the presentation.

Next, Tomoo got into the details of all the expenses related to buying property and a home. He pointed out that there is consumption tax to be paid on a structure, but no such tax required for the purchase of land. There are several types of taxes and fees and Japan sets legal limits for these, including the real estate agent fee (up to 3% + JPY 60,000 + 8% tax). One interesting fact is that a pre-owned house or apartment unit is **NOT** taxed, if sold by an individual and NOT by a real estate agency. However, it may be taxed if it is considered to be investment property. Some taxes can be quite significant so the purchaser needs to get all taxes and fees recorded in order to know the real cost.

Here is a good website resource, which covers the topic of purchase fees and taxes:

<https://resources.realestate.co.jp/buy/cost-of-buying-real-estate-in-japan-breakdown-of-purchase-fees-and-taxes/>

He went through the same process required for renting property, pointing out the differences with buying. In general, rent for a residence is not taxed, but an office is.

Since quite a few people were interested in how to go about building a new home, Tomoo spent quite a bit of time on the steps required. First of all, there is the purchase of the actual land, which may already have a structure on it, or be subject to local building/zoning restrictions. When dealing with developers this is a much simpler process, as property has

most likely been subdivided and meets all requirements. The purchaser typically chooses from several model homes with some options that can be included. The developer already has the construction team in place, whereas an individual wanting a custom construction of a home will have to locate the companies to do the work, and work out contracts with them. In the case of reforming, his **advice** it that it is better to consult builders, before purchasing the property, in order to determine what is allowed.

A good article on this topic can be read here.

<https://resources.realestate.co.jp/buy/building-a-house-in-japan-key-things-to-know-about/>

For those who are considering the purchase of a condominium this is a good link.

<https://resources.realestate.co.jp/buy/building-management-associations-japan-need-know-condo-owner/>

In addition to all the details that Tomoo provided, we were able to view a video explanation by Neil Hartmann, as to what he learned from the process of having his eco-home in Jozankei custom built. The video was well received, and it is being made available through the following link via his Vimeo account. The PW is Ken.

<https://vimeo.com/274502237>

## **ADVICE FROM NEIL**

Practice writing your name and home address in Japanese as ONLY YOU MUST do it.

You need to present the design when getting a bank loan. Very few alternatives or modifications will be allowed after obtaining the loan.

Insulation inside and outside walls keep the house warm, lowering heating costs.

Different areas of Sapporo have various regulations on the strength of the roof, depending on the amount of annual snowfall.

## **OTHER BUILDING ADVICE FROM THE SPEAKER AND PARTICIPANTS**

Big companies offer cheaper pre-designed options, but end up more expensive for quality.

Small independent companies (Hummu) design house then hire subcontractors for 10%.

Better communication with small local companies and they are more knowledgeable about weather and local snow conditions.

There are properties that may have restrictions which prevent the new owner from rebuilding. These can be remodeled but cannot be torn down.

## **FINANCING THE PURCHASE – MORTGAGE LOANS**

The next section covered by Tomoo was Mortgage Loans. Once again there are some great resources on the Internet by Jeff Wynkoop which cover the basics of home mortgage lending in Japan. <https://resources.realestate.co.jp/>

Among the recommendations is ***“GUIDE TO HOME MORTGAGE LOANS IN JAPAN”***

<https://resources.realestate.co.jp/buy/guide-home-mortgage-loans-japan/>

It includes a section on the **Flat 35 Loans** which Tomoo discussed, and just happened to be the same type of loan that Neil obtained for his home in Jozankei.

He also recommends ***“GETTING A HOME LOAN IN JAPAN AS A FOREIGNER”***

<https://resources.realestate.co.jp/buy/getting-a-home-loan-in-japan-as-a-foreigner/>

Among the issues covered by the speaker on obtaining a mortgage loan were residence and income requirements, group credit life insurance which is required to guarantee the repayment of the loan in case of death or long-term illness. He also mentioned that all documents must be executed in Japanese, and that English translations are only for informational purposes. He then covered which banks will lend to foreigners or those purchasing property from abroad. Next, he got into the amount of money one can borrow based upon the Japanese banks appraisal of the value of the land. The buyer is advised to talk with lenders prior to making an offer. It is also worthwhile noting that nowadays many lenders restrict early repayment of loans or charge extra fees if the buyer elects to do so.

## **ADVICE FROM THE SPEAKER AND PARTICIPANTS ON OBTAINING LOANS**

It is worthwhile taking the time to visit a variety of bank branches and it might help if there is a connection between the builder and the bank.

Hokkaido Ginko was friendly with foreigners who held a permanent residence visa status.

Possible good banks to talk to are Hokuo Shinyo Bank, Shinsei Bank and banks in Eniwa.

Develop a good relationship with a small bank before taking the step to purchase.

Check your credit report at the Credit Information Center Corporation.

## USING AN AGENT

There are 3 basic types of Brokerage Service Agreements when a property buyer uses a Real Estate Agent. These are Non-Exclusive, Exclusive, along with Privileged and Exclusive. Each of these details what the buyer and agent can and cannot do with the time limits. In general, his **advice is to watch out for Exclusive agreements.**

The typical agent fee structure was presented and it was pointed out that fees are only paid on a contingency basis, meaning only when a deal is closed. The fee is a percentage of the purchase price varying from 3% (property priced greater than 4 million yen) to 5% (property priced up to and including 2 million yen). A price over 2 million and less than or equal to 4 million yen requires a fee of 4%. The general agent fee for rental property is one month's rent plus 8% consumption tax.

## REAL ESTATE VALUE

This area covered the determination as to how long a building will last. This focused on the Statutory Useful Life for tax purposes versus the Economic Useful Life of a building for real estate appraisals. In general, the Economic Useful Life is computed by subtracting the number of years passed from the Statutory Useful Life calculated. However, recently there is more consideration given to the actual condition of a building than on the number of years passed. When comparing Statutory versus Economic Useful Life periods, statutory life is much shorter for all types of structures, so the **Advice:** is to Use "Economic useful life" when applying for a home loan.

## DETERMINATION OF REAL ESTATE PRICE AND APPRAISAL STANDARDS

To determine an accurate price of real estate, one will need to evaluate the real estate according to the Real Estate Appraisal Standards published by the Ministry of Land, Infrastructure, Transport and Tourism (MLTIT). Based on the Standards, a Real Estate Appraisal Report is prepared by a licensed Real Estate Appraiser. The Report assigns value both to the land and the building. There are three basic approaches:

- 1) Cost Approach: How much would it be if one re-creates it anew?
- 2) Market Approach: How much would it be if determined from neighboring prices?
- 3) Income Approach: How much would it be if determined from its investment gain?

PDF file on the Real Estate Appraisal System in Japan: [https://dacha.fudousan-kanteishi.or.jp/english/pdf/SummaryofrealestateappraisalsysteminJapan\\_E.pdf](https://dacha.fudousan-kanteishi.or.jp/english/pdf/SummaryofrealestateappraisalsysteminJapan_E.pdf)

## **ONE LAND, DIFFERENT VALUATIONS (PRICES)**

Market Value: Based on Market Approach, agencies usually use this value.

Fixed Asset Tax Value as used by tax offices to determine property tax and Street Value used by tax offices to calculate Inheritance Tax.

Street Value to calculate Inheritance Tax is based upon all three Approaches.

Posted Price: Based on all three approaches, determined by MLIT as an index for land transactions. It does not take into account whether there is a building on the land nor rights attached to the land. The price is based solely as if the land is empty.

<http://www.solidrealestatejapan.com/2016/08/18/real-estate-valuation-japan/>

[http://www.land.mlit.go.jp/webland\\_english/servlet/MainServlet](http://www.land.mlit.go.jp/webland_english/servlet/MainServlet)

## **MAJOR LAWS REGULATING USE OF REAL ESTATE**

The speaker covered the two main laws that govern how one can use land and what kind of building can be built on it, according to the zoning regulations.

### **CITY PLANNING LAW**

Created by the MLIT, it regulates urban development. Japan is divided between the regulated City Planning Area and unregulated Non-City Planning Area. The City Planning Area is mainly divided into the Urbanization Promotion Area, where development is promoted and the Urban Restricted Area (e.g. agriculture/forestry).

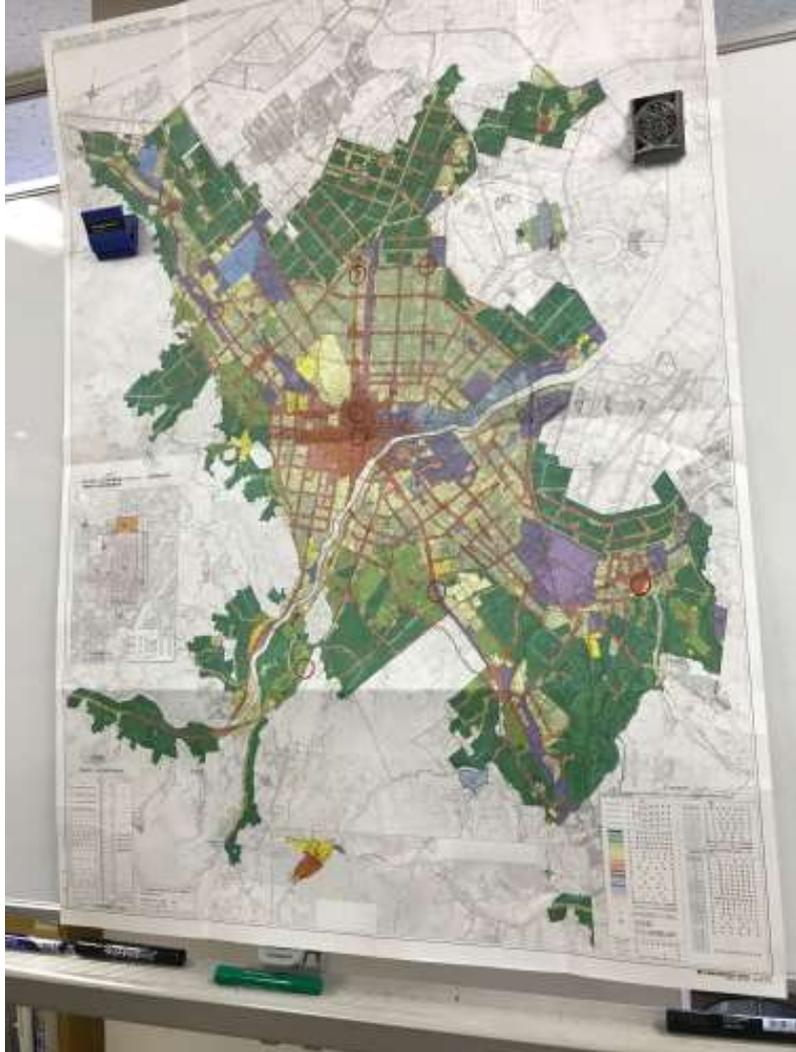
The Urbanization Promotion Area is subdivided into 12 Zoning Districts. Depending on the use of real estate allowed, the Districts can be sorted into 3 categories, these being Residential, Commercial and Industrial districts.

### **BUILDING STANDARDS LAW**

Created by MLIT, the Law provides basic rules for constructing buildings and stipulates minimum engineering safety requirements with regards to fire, earthquake and other natural disasters. It also stipulates the type of building that can be built in each Zoning District. Some areas also have their own Local Government Ordinance which imposes certain additional regulations to the area. An ordinance has almost the same effect as a law and must be followed.

## THE 12 ZONING DISTRICTS

There was quite an interest in the zoning map displayed at the presentation. It is a city planning map of Sapporo City, which was revised this April and the hard-copy is sold at City Hall for 110 yen. Tomoo explained the color code system, indicating the types of structures allowed and the density. He also shared his opinion on the growth areas in Sapporo.



Here is a link where you can navigate the map borough by borough in detail.

[http://www.jamgis.jp/jam\\_sapporo/faces/jsp/lite/viewSet.jsp?agree=yes](http://www.jamgis.jp/jam_sapporo/faces/jsp/lite/viewSet.jsp?agree=yes)

Mr. Tomoo Sono would like to credit the following resources used:

1. *"The Fundamentals of Japanese Real Estate"* (Authors: Kazuya Wakimoto, Jon Salyards; Publisher: Shuuwa System; ISBN978-4-7980-3121-7 C3033)
2. Ministry of Land, Infrastructure, Transport and Tourism (PDF file)

<http://www.mlit.go.jp/common/001201742.pdf>