

“THE LAW OF NUMBERS” – JAPANESE REI FINANCIAL & LEGAL ASPECTS

BY ZIV MAGEN

In the last issue of Real Estate Investing Wealth Magazine, I outlined the logical reasoning process that led us to choose Japan as our primary investment locale. In a nutshell, the main issues were, and still remain, what we can now handily bring back to mind as the ARC strategy – Affordability (entry levels of under \$20,000), Reliability (as straight and as honest as they come, recently hailed among Bloomberg’s [“Top 3” countries to do business](#) in) and Cash-flow(10-15% pre-tax p/a).



With all of these boxes neatly ticked, it was time to start hand-picking the right team - as mentioned in past articles, we like to start with the basics – financial and legal reps.

Accountant

Being non-Japanese and dealing with tax treaties between my country of residence (Australia) and country of investment (Japan), necessitates careful planning and structuring. Professional English-written tax returns, book-keeping annual reports and various accounting-related documents are a necessity. Japan isn’t divided into states or other limiting forms of local financial regulations, and so Tokyo, Osaka or Kyoto – Japan’s three largest and most internationally-known cities – seemed like the natural places to look.

Our choice had very little to do with price per hour, since the professional we finally picked was on the upper mid-range price-wise. Our choice had a whole lot to do with communication, attention and trustworthiness. And while we still test the market regularly for alternative accounting solutions, we have had no reason to stray from our first choice.

A good professional adviser will, first and foremost, know to tell you when their services are NOT required. If there are reporting thresholds, automated procedures and online shortcuts to routine tasks, I expect to hear about these from my service provider – and am happy to pay for the hour or two it may take to explain those to me.

Scrivener

Slick, big city lawyers are normally English-speakers, wherever in the world one may stray. But, a few quick calls and meetings with such, coupled with some information gleaned from real-estate websites and local government offices, revealed the “real hero” of the Japanese property transaction market – “The Judicial Scrivener”. These guys (and girls, although still a sad rarity in the land of the rising sun) are something akin to a notary public or property lawyer. They are bound by strict national supervision and licensing regulations, and are obliged to check, double-check and triple-check all aspects of the transaction, confirm the property is debt free, money has changed hands, then transfer registration from buyer to seller - be it a company, an individual or any combination of such.

It took a few calls, emails and repeated explanations to find the right people, then a few case-studies with small and simple property transactions. But, we now have a team of several young, savvy, multi-lingual Japanese judicial scrivener offices we regularly work with.

And, while in Japan the realtor’s office will often “supply” their own in-house or third-party scrivener, who is often heavily discounted as part of the “purchase package” by said party, these older, more traditional scriveners have often never dealt with foreigners in their lives. And, they rarely speak a word of English, particularly in the more attractive areas of the country, where the English-speaking investor has yet to venture. In these cases, differences in legal terms, documents required and often simple fear of the foreign, can postpone and delay settlement and, as a result, the commencement of yield.

As a result, we often fall back to our cadre of slightly pricier, but far quicker, more efficient and well-worth their time judicial scriveners – even if it’s only to confirm a deal pre-purchase. Flips, short-sales, foreclosures and such exist in every country, Japan included, and are normally more complicated forms of transaction

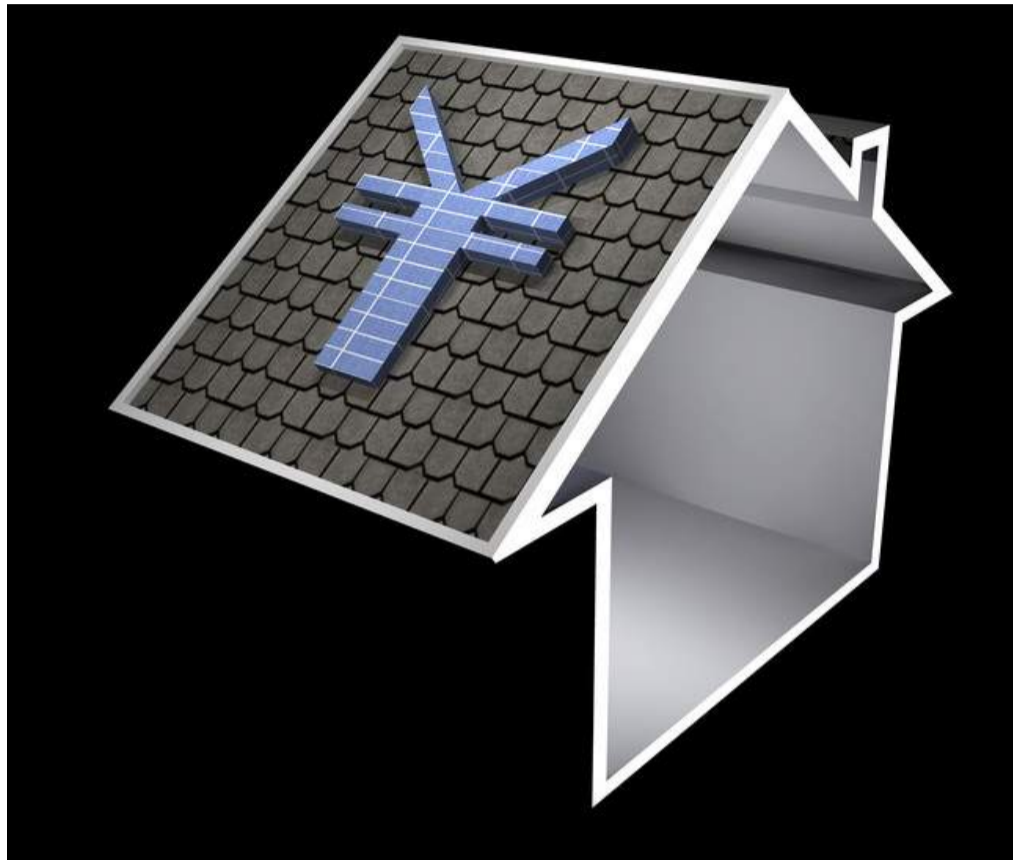
that require specific provisions be placed in various documents and work procedures – and it pays to be safe, rather than sorry, on so many levels.

Hitting the Ground Running

Now, with a team of professionals “covering our backs”, information began to pour through. We quickly found out through our team about changes, loopholes, options and innovations that we could use to our favor – all before even looking at our first potential deal!



A good professional adviser will, first and foremost, know to tell you when their services are NOT required



Here are just some of the revelations our legal and financial team helped us realize –

- **It is completely possible** to facilitate a property purchase remotely, in Japan – with a series of carefully selected, worded and translated documents, internationally agreed upon methods of verification and terms, video and voice conferences, and an exchange of signatures. **Today's technology makes this possible and cost-effective not only for multi-million dollar transactions, but for those of twenty, thirty and fifty thousand dollar magnitudes as well.** **The level of legislation** and cultural norms binding all realtors, buyers, sellers, scribes and other practitioners involved in the process **all but negates the possibility of fraud.** (There's no protection against a bad deal, of course – but more about that in the next few articles).
- **A single entity's** annual Japanese income, if under 2 million Japanese Yen (**approximately \$20,000**), **is un-taxed.** Earnings above this threshold are taxed at 5% per Yen over.
- Most taxes can be automatically deducted from local bank accounts, free of bank charges. The low thresholds mean that, in effect, unless you're holding three or four properties at the very least **registered under the single entity**, you won't even need to see your accountant – just pay your bills as they come along.
- **The number of times a real-estate agency's license has been successfully renewed is readily accessible, online-brows-able, public information.** Complaints and allegations cause these renewals to cease, at least temporarily – and they're mandatory every several years. What a handy tool to pick your professionals with! Of course, one shouldn't rule out young, innovative and creative companies and solutions if they haven't had a chance to renew their license yet – but should definitely look into their credentials more closely.

- **Purchase costs and depreciations can be applied**, to various degrees, to every property owned - if tax becomes significant and an accountant's services are required, there are **at least 2-3 years of potential tax cut** claims to be made in every property purchase. Once those years are done, depending on market conditions and levels of resuming taxation – it **may be feasible to "recycle" properties** and commence the claim cycle on new purchases.

Feeling more confident about ourselves and our well-chosen team pillars, we thanked them dearly, bade them farewell (temporarily only), and went forth to find the rest of our team members, and also – drum roll – **our very first deal!**

Stay tuned. :-)



**Tenanted Units from \$20K
Up to 16% Pre-Tax Return**



About the Author

Ziv Magen is an Australian, and has been deeply immersed in Japan's culture and business environment for the past decade. In 2003 he forsake his career as in IT corporate project manager, wishing to spend more time with his family and secure their financial future. Having made the transition to real-estate investment and successfully building his own portfolio, he subsequently established [Nippon Tradings International \(NTI\)](#) together with his Japanese partner, assisting others in capitalizing on Japan's vast and lucrative property market.

