Japan's Home-sharing Trend Could Mean Higher Returns for Foreign Investors

By Priti Donnelly

Changes to Japan's rental accommodation laws could open a new and highly profitable market for foreign real estate investors. With the weak yen and resulting surge of tourists, and the upcoming 2020 Tokyo Olympic Games, the demand for accommodation is over the top. Currently, the 'room sharing' trend is illegal in Japan with the exception of certain areas. The process of renting out rooms dates back to World War II with permission required from local regulators and will remain in effect until the government approves the anticipated changes to the antiquated system in 2017.

Hotel Shortage

Hotels in the popular tourist cities of Tokyo, Osaka and Kyoto are currently operating at 90% occupancy rates at premium price. With shortages in accommodation, homes in Japan registered with Airbnb and other home-sharing website platforms, increased in 2015 by more than 370%, the highest rate in the world, and increased in the number of travellers using the service by more than 500%, regardless of the current unregulated process. With plans to develop the economy by boosting the number of foreign tourists to 20 million annually by 2020, Prime Minister Shinzo Abe recognizes the hotel shortage and the increasing demand for the home-sharing service. He said during a government panel meeting in October, “We need to make the experience of foreign tourists visiting Japan more convenient and comfortable. For this, we need to expand the number of short-term accommodations beyond hotels.”

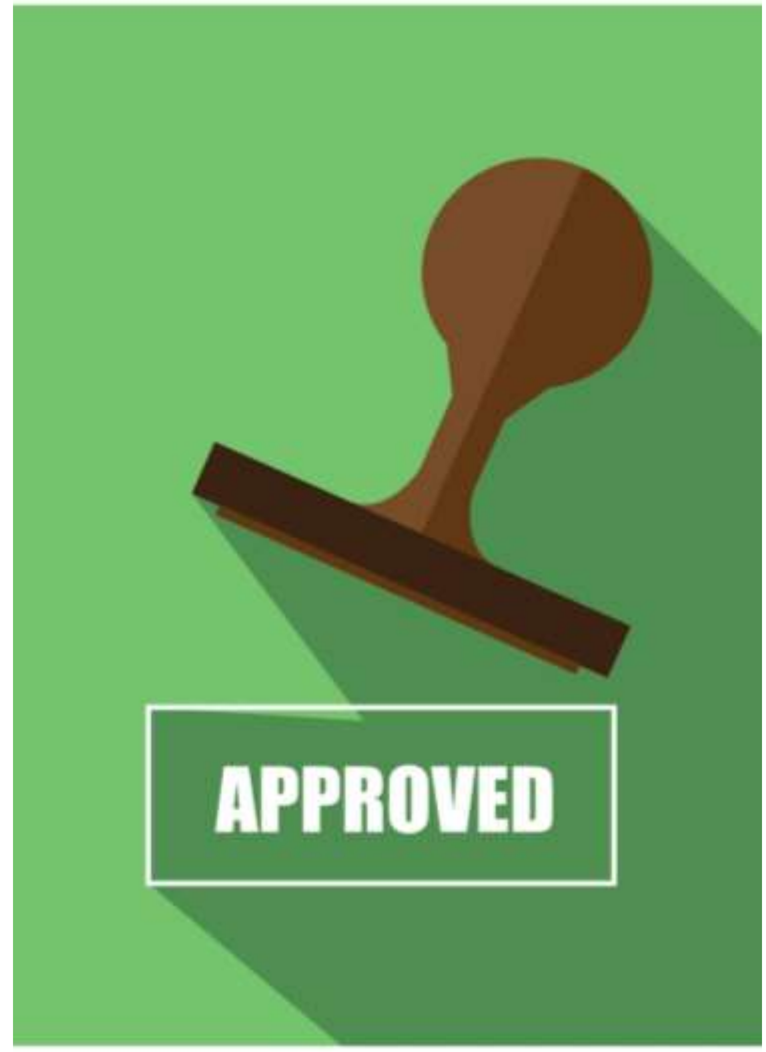
New Framework

In late January, Tokyo’s Ota ward won an exemption from the country’s hotel law and became the first municipality in Japan to tackle the chronic hotel shortage. In the ward, residents could legally rent out space to tourists, a business known as “*Minpaku*” in Japanese, under certain requirements. *Minpaku*, must register with the local authority, agree to inspections, and visitors must stay for a minimum period of one week. Regulations relaxed to an inn status, but management requirements were too stringent for owners to comply with. In addition, many tourists would not stay for a week.

Recently, the Japanese government put together a new framework with three key changes to regulate rentals of vacant rooms in private residences to travelers, making *Minpaku* easier to run. First, under the changes, properties would fall under designated residences rather than inns, exempting them from the hotel law, which would relieve the business from the requirement of a reception area. Second, the new legislation would eliminate the minimum stay requirement. Third, Airbnb-style operators must register properties as a *Minpaku* business when adding listings. The *Minpaku* business would be obliged to perform background checks of guests, take care of complaints from neighbors, manage keys for the operator, take out casualty insurance, ensure building garbage rules are complied with, etc. For convenience, many individual would-be *Minpaku* operators will hand the responsibility of management of their properties to third-party management companies.

Profitable Market

Under the new framework, owners who choose to rent out rooms using services such as Airbnb, could benefit from five times more monthly income than a long term rental. As one multiple property investor explained, a nearby hotel in Tokyo charges ¥18,000 a night per person. He charges ¥10,000 for the first person and ¥2,500 for each additional guest, so five people could theoretically stay there for the price of one person in a hotel. One of his units is a 30 sqm one-room apartment that he purchased for ¥10 million. The market rate for the unit as a rental is ¥80,000 a month, but he rents it out to Airbnb members and makes an average of ¥410,000 a month. After subtracting expenses and loan payments, he enjoys a return on investment of 25% a year. While the return varies depending on location, the income from short term rentals would be higher than the current high yield market.



Waiting for Approval

The affordable Airbnb sharing system is becoming increasingly popular, catering to visitors who are not particularly interested in amenities, but looking for a room conveniently located near shopping districts and leisurely sight-seeing. The Japanese government plans to submit the new *Minpaku* law to the regular session of the Diet, Japan's legislature, sometime in 2017. Until then, home-sharing in Japan is still in a grey area, and in breach of the Japanese Hotel Business Law with the exception of special economic zones designated around the country, which have passed a special *Minpaku* enforcement ordinance, such as Osaka City and Ota-ku in Tokyo, with a minimum stay requirement of seven nights.

Renting out a room to strangers may not be for everyone. In Japan both regulatory and cultural restrictions pose the greatest challenges. Some say home-sharing causes a nuisance and disturbance in Japan's typically serene bedroom communities. Others worry about security risks. In a country adverse to change, many residents see home-sharing to foreigners as a rude awakening, putting it mildly. But, for the foreign investor, the grass is always green on both sides -- invest in an affordable, high-yield property in a second or third tier city and receive immediate, generous monthly income or, invest in a more expensive property in a top-tier city and profit from highly profitable short-term home-sharing market.

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