UNDERSTANDING JAPAN'S COUNTER-INTUITIVE REAL ESTATE MARKET

The Japanese market is the ideal cash flow market due to its steady and high yield rental income.

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You may think real estate investing is solely about property growth as you would find in Australia, U.K. US, Singapore and similar markets. The Japanese property market is not ripe with prospects for increased property value. So, why then is the market saturated with foreign investors?

CREATING OPPORTUNITIES BEYOND CAPITAL GROWTH

The Japanese property market suffered at least 25 years of declining/flat-lining prices. Although capital growth made a quiet entrance from 2012 to 2016, it was too soon for investors to comfortably speculate growth. Instead, investors found a new opportunity. Because of the decline, properties became quite affordable while rental rates remained stable. The result, steady and higher yields across Japan-- the ideal cash flow market from high yield rental income.

To put it in perspective, for as little as USD30,000 at 7.5% yield net pre-tax, investors can earn monthly rental income of approximately USD170/month. As an added benefit, in a prime location you might also gain property value, but that is not the focus of property investing in Japan. This market is about common sense investing without the speculative nature.

OVERCOMING THE LANGUAGE BARRIER

This is not your typical internationally friendly business market. On one hand, you will experience the most reliable and honest professionals in Japan, while on the other, foreigner-shy professionals who likely cannot speak English.

Furthermore, to invest in Japanese properties, you will need a local address, phone number and a local bank account, impossible without communication and cooperation. To get around this barrier, savvy foreign investors use a trusted local Japanese/English speaking proxy or representative to act on their behalf for both communication and access to the required information.

A typical house in Osaka

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UNDERSTANDING OLD STRUCTURES

Some novice investors shy away from the Japanese property market believing with a huff and a puff, structures could be blown down. It is true that structures built before 1981, including smaller steel-frame buildings, and even wooden frame houses, were not built to last and require major renovations and repairs over time. However, a major change to the Building Standards Act for earthquake resistant construction methods for buildings (reinforced concrete blocks) occurred in 1981.

This became the turning point that investors often looked to when purchasing property. That being said, there is still a niche market for older properties because of the higher yield. In truth, regardless of age, with due diligence, if the property has proof of regular maintenance, renovations, repairs to the interior and exterior, as well as sufficient funds for ongoing repairs, and is tenanted, an older higher yielding property could prove to be a diamond in the rough.

ACCEPTING FOREIGN REAL ESTATE

Today, the best real estate opportunities do not have to be in your own back yard. JPMorgan Chase says Japanese real estate and infrastructure are becoming more attractive particularly with no more than 50% of leveraged funds. Above that, real estate doesn't become the driver, but the leverage becomes the driver of your return.

Japan provides opportunities for stable, monthly cash flow from rental income with yields from 5% to 11% net pre-tax. Add to that, currency exchange and the yen's role as a safe-haven currency and it's easy to see why this is a booming market for foreign investors, contrary to the standard real estate investment approach. ■

Osaka skyline