

IN-DEPTH

# Real Estate Law

JAPAN



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# Real Estate Law

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*In-Depth: Real Estate Law* (formerly The Real Estate Law Review) provides an invaluable overview of how key real estate markets across the globe operate and how they react to major world events. With a focus on recent developments, it analyses the legal frameworks governing real estate ownership and transactions in each jurisdiction, while also offering an incisive outlook of potential future trends.

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# Japan

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## Summary

INTRODUCTION

OVERVIEW OF REAL ESTATE ACTIVITY

FOREIGN INVESTMENT

STRUCTURING THE INVESTMENT

REAL ESTATE OWNERSHIP

LEASES OF BUSINESS PREMISES

YEAR IN REVIEW

OUTLOOK AND CONCLUSIONS

ENDNOTES

## Introduction

### Ownership of real estate

The basic ways in which real estate can be held in Japan are either holding ownership title to real estate directly or holding a beneficial interest in a trust that holds title to real estate in connection with large-scale commercial investments.

Land and buildings are considered separate and independent real estate; therefore, one person can hold the title to land while another person holds the title to a building on the land. When different persons own a building and the parcel of land upon which the building is located, the two owners will typically enter into a contract such as a land lease agreement where the building owner is permitted to use the land.

Joint title to real estate, which is governed by the rules under the Civil Code, is one form of title that can be held by multiple persons. Condominium title to a condominium that is part of a building, which is governed by both the rules under the Condominium Law and by the Civil Code, is another form of title that can be held by a single person separately from other condominium owners in the building.

Trust beneficial interests in real estate are typically issued when a real estate owner places the real estate in a trust. The trustee holds title to the real estate placed in the trust. The owner, however, holds a trust beneficial interest that represents a contractual relationship with the trustee under a trust agreement. Accordingly, the beneficiary may instruct the trustee to administer and manage the real estate in the trust and to distribute profits earned from the real estate (after deducting costs and expenses for administration and management of the real estate). Trust beneficial interests are used for various reasons, including delegating administrative duties from the beneficiary to the trustee and deferring certain taxes related to real estate transfers by transferring the trust beneficial interests instead.

### System of registration

Ownership title and other property rights with respect to real estate are typically registered in the real estate registry maintained by local registration offices. Trustees are typically the registered owners of real estate that is placed in trust. The general rule is that transactions, including the sale and purchase of real estate and creation of a mortgage on real estate, take effect upon execution of agreements between the parties, and that no formalities are required; however, the holder of ownership title or other property rights with respect to real estate must have its interest registered in the appropriate real estate registry to assert its rights against a third party. This means that generally, to perfect a right over real property, there must be a valid agreement between the parties, and the right must be registered in the name of the holder. The registration is governed by the Real Property Registration Act.

While registration of a real property right in the name of a certain person does not necessarily mean that the person actually holds the registered right, registration is usually considered strong evidence. Neither the local registration office nor the government guarantees the accuracy of the real estate registry. A registration in the real estate registry

only reflects and records the transactional activities that private persons described in their applications for registration.

## Choice of law

In the context of a cross-border transaction, choice of law rules are provided in the Act on General Rules for Application of Laws. Under the Act, if the subject matter is a property right or other registrable right in real estate, the law of the jurisdiction in which the real estate is located will be the governing law; however, under the Act, the governing law of a contract can be chosen by the parties thereto. Despite the Act permitting the parties to choose the governing law of the contract, parties usually choose Japanese law as the governing law of a sale and purchase agreement with respect to real estate located in Japan, because property rights in real estate are governed by Japanese law.

## Overview of real estate activity

Japan has developed various innovative real estate investment structures over the past few decades.

The GK-TK structure (see 'Structuring the investment') and the specified-purpose company (TMK) structure are frequently used in real estate investment transactions. Japanese real estate investment trusts (J-REITs) have made it possible for investors with smaller amounts of capital to invest in real estate through the purchase of listed J-REIT securities. The listed J-REITs have become major players in the Japanese real estate investment market through the use of the accumulated capital of investors, and the flow of capital through listed J-REITs into the real estate investment market has contributed to the overall growth of the real estate industry.

The increase in flexibility offered by such investment structures has resulted in a greater influx of domestic and foreign capital into Japanese real estate. The response to demands from an increasing number of participants has made the real estate investment market more sophisticated and attractive, and many investors consider the Japanese real estate market to be an important focus in their global investment strategy.

Following the sharp recovery of the Japanese real estate market in 2024, led by significant growth in the hotel sector, the market continued to expand in 2025. The office sector also saw improved performance as the trend shifted back towards office-based work. Alongside traditional real estate investment activities, new types of real estate investment have emerged, including real estate security token offerings. In addition, diversification of asset classes has continued, with an emerging asset class – data centres – attracting substantial investment. These new developments have contributed to broadening the investor base in the Japanese real estate market. Separately, the Government of Japan has begun reviewing the rules on foreign investment in land in Japan, and development in the discussion on such rules warrants close attention.

## Foreign investment

There are no direct restrictions on acquisitions of commercial or residential real estate in Japan by foreign investors, either directly or through a vehicle. Similarly, establishment of a corporation by foreign investors to invest in commercial or residential real estate is not restricted.

However, under the Agricultural Land Act, an authorisation by the relevant authority is required to acquire certain agricultural land. This authorisation can only be granted if the purchaser is qualified as a farmer or as a corporation for owning agricultural land. It would not be easy for foreign investors to be granted such an authorisation.

The Act on the Review and Regulation of the Use of Real Estate Surrounding Important Facilities and on Remote Territorial Islands (the Important Land Review Act) came into force in September 2022. The Act allows for the designation of 'monitored areas' in Japan and, within the category of monitored areas, a narrower category of 'special monitored areas'. Under the Act, any party who intends to enter into a contract to transfer or obtain ownership title to real estate within any 'special monitored area' must notify the Prime Minister in advance of the transaction. The Prime Minister is expected to designate 'special monitored areas' based on the criteria under the Act, such as proximity of the real estate to certain important facilities or the real estate being located on certain border islands. The Cabinet Office has issued notifications designating a number of sites as monitored areas and special monitored areas respectively.

After a foreign investor's acquisition of real estate, a post-transaction report to the government authority may be required pursuant to the Foreign Exchange and Foreign Trade Act (FEFTA). A post-transaction report of payment or receipt of payment may be required in the case of cross-border payments or payments between a foreign investor and a Japanese resident in accordance with the FEFTA.

## Structuring the investment

When choosing an investment structure, the legal, accounting and tax implications must be considered because each can be a driving factor for the choice. The most popular structures and investment vehicles used for real estate investments in Japan are the GK-TK structure, the TMK structure and the J-REIT.

### GK-TK structure

A limited liability company (GK) is one type of corporate entity under the Companies Act. In some respects, it is similar to a limited liability company in the United States; however, it is not itself a pass-through entity for tax purposes.

When a GK is used as an asset investment vehicle, typically an investor leverages its investment by third-party loans and makes its own investment in the GK through a contractual anonymous partnership (TK) arrangement. The TK arrangement is a bilateral (not multilateral) contractual partnership relationship created for the investment purposes by the TK interest holder, called the TK investor. The other party to the contract is called the TK operator. Under the GK-TK structure, the TK operator is the GK.

A TK arrangement qualifies for favourable tax treatment if the TK investor is a passive investor with minimal control over the management of the GK and the contributed funds under the arrangement. If the TK arrangement qualifies, the GK is permitted to deduct distributions to the TK investor from its taxable profits in addition to deducting debt payments. This tax-efficient combination of a GK and a TK arrangement is called a GK-TK structure.

Typically, a GK-TK structure is used to make investments in trust beneficial interests in real estate, and loans backed by real estate. If a GK holds real estate directly, by raising funds from TK investors, it will generally be subject to a licensing requirement under the Act on Specified Joint Real Estate Ventures (ASJREV); therefore, the GK-TK structure is usually structured to invest in trust beneficial interests in real estate, not in real estate itself. An exemption from the licensing requirement under the ASJREV allows the GK-TK structure to invest in real estate itself if certain requirements are met.

A GK-TK structure that is used to invest in a trust beneficial interest in real estate will subject the GK to the strict registration requirement under the Financial Instruments and Exchange Act (FIEA) in relation to the GK's investment management business, unless an exception applies.

One of the exceptions available under the FIEA is the Specially Permitted Businesses for Qualified Institutional Investors (QII), etc. exemption (the QII exemption), which essentially requires that:

1. there is at least one QII under the FIEA among the TK investors;
2. the number of non-QII TK investors (if any) is 49 or fewer (non-QIIs (including a foreign corporation) are limited to certain categories);
3. none of the TK investors is a disqualified investor as described in the FIEA; and
4. the GK, as the operator of the TK arrangement, files with the relevant government authority a notification regarding the QII exemption.

Another exception, introduced in November 2021 and available under the FIEA, is the Specially Permitted Business for Foreign Investors, etc. exemption (the foreign investors exemption), which essentially requires that:

1. TK investors are limited to certain qualified investors, such as foreign corporations, certain individuals domiciled in foreign countries and professional investors;
2. more than 50 per cent of the entire TK investment into the GK is made by non-residents;
3. none of the TK investors is a disqualified investor as described in the FIEA;
4. the GK, as the operator of the TK arrangement, has a personnel structure capable of appropriately conducting the GK's investment management business; and
5. the GK files a notification regarding the foreign investors exemption with the relevant government authority.

Another exception available under the FIEA in relation to the GK's investment management business is the exemption by outsourcing to a registered discretionary investment

manager. Under this exemption, the GK retains a registered discretionary investment manager (a 'registered financial instruments operator' under the FIEA) as its asset manager to manage its trust beneficial interest in real estate on a discretionary basis. This exemption requires, among other things, that:

1. the GK enters into a discretionary asset management agreement with the registered discretionary investment manager that authorises the manager to make a discretionary investment decision on behalf of the GK on its trust beneficial interest in real estate;
2. the TK agreement provides that under the asset management agreement described above, the GK authorises the manager to make a discretionary investment decision on its behalf on its trust beneficial interest in real estate;
3. the TK agreement provides an outline of the asset management agreement described above, including the fees (or the fee arrangement) to be paid to the asset manager from the assets managed under the GK-TK structure;
4. both the TK agreement and the asset management agreement described above provide certain duties of the asset manager, such as the asset manager's duty of loyalty and duty of care of a prudent manager, both owed to the TK investor in carrying out the investment management of the trust beneficial interest in real estate held by the GK;
5. the GK manages its assets of the GK-TK separately from its own assets (and its other investment assets managed for other investors, if any) and the asset manager supervises such separate management; and
6. the asset manager files with the relevant authority a notification of the outsourcing by the GK prior to the GK entering into the TK agreement.

## ASJREV structure

GK-TK structures may, provided certain requirements are met, directly invest into real estate without the GK (the TK operator) having to obtain a licence or registration. The 'special venture' GK-TK structure available under the ASJREV essentially requires that:

1. the GK must be established for the sole purpose of distributing proceeds and profits from transactions related to the subject real estate;
2. the GK, as the TK operator, must delegate the management of transactions related to the subject real estate to a licensed operator of a 'specified joint real estate venture' or a registered operator of a 'small-scale specified joint real estate venture' to conduct the management activities pursuant to the ASJREV;
3. the GK, as the TK operator, must delegate the solicitation of TK investments in to the TK operator by the potential TK investors to a licensed operator of a specified joint real estate venture to conduct such solicitation activities pursuant to the ASJREV. The licensed or registered operator must also be a registered operator of a 'type II financial instruments business' (or 'type I financial instruments business', if the TK investments into the TK operator fall under 'electronically recorded transferable

rights' as defined in the FIEA) under the FIEA to conduct such solicitation of the TK investments, which are regulated as securities under the FIEA;

4. the TK investors must be limited to 'special investors' (or professional investors), which include licensed operators of a specified joint real estate venture under the ASJREV, real estate brokers approved to conduct transactions for the clients on a discretionary basis under the Real Estate Brokerage Business Act, real estate investment advisers registered under the Real Estate Investment Adviser Registration Regulations, professional investors under the FIEA and stock companies with stated capital of ¥500 million or more, if the GK, as the TK operator, is to conduct development of land as a site for buildings, construction of a building, or repair or renovation of a building, the cost of which exceeds:
  - 10 per cent of the value of the subject real estate, in the case that the asset manager retained by the GK is a licensed operator of a specified joint real estate venture; or
  - ¥100 million, in the case that the asset manager is a registered operator of a small-scale specified joint real estate venture;
5. the agreement between the GK and the licensed operator of a specified joint real estate venture or the registered operator of a small-scale specified joint real estate venture as described in point (b) must stipulate certain items specified under the ASJREV; and
6. the GK must submit a notification to the relevant authority as the operator of a special venture before commencing its business under the TK arrangement.

Another GK-TK structure available under the ASJREV is the 'venture only for qualified special investors'. This is a structure where the TK investors are limited to 'qualified special investors' (or 'super professional investors'), which include licensed operators of specified joint real estate ventures under the ASJREV, real estate brokers approved to conduct transactions for clients on a discretionary basis under the Real Estate Brokerage Business Act, discretionary real estate investment advisers registered under the Real Estate Investment Adviser Registration Regulations and certain types of 'qualified institutional investors' under the FIEA. To use this structure, the GK, as the TK operator, is required to submit a notification to the relevant authority as the operator of a venture only for qualified special investors before commencing its business under the TK arrangement, but the GK is not required to retain a licensed operator of a specified joint real estate venture or registered operator of a small-scale specified joint real estate venture as its asset manager or distributor.

The foregoing GK-TK structures under the ASJREV can enjoy certain preferential tax treatment such as reduction of registration and licence tax and real estate acquisition tax.

### TMK structure

A TMK incorporated under the Act on the Securitisation of Assets (ASA) is another type of corporate entity often used as a real estate investment vehicle. This entity may only be used to liquidate or securitise certain assets. This investment platform is used to make investments in real estate, trust beneficial interests in real estate, and loans and TMK bonds that are backed by real estate.

A TMK is typically funded by issuing TMK bonds and preferred shares that meet certain tax qualifications required for the preferential tax treatment of the TMK. If a TMK, its bonds and its preferred shares are properly structured, and the TMK meets certain other requirements under the Tax Code, distributions to the preferred shareholders can be deducted from the TMK's taxable profits in addition to deducting debt payments.

One of the requirements for the preferential tax treatment is that its TMK bonds be purchased by an institutional investor or other similar person or entity (a Tax II or equivalent investor) as defined in the Tax Code. Certain QIIs under the FIEA and certain other QIIs meeting additional requirements fall under the definition of a Tax II or equivalent investor. One of the important steps in setting up a TMK structure is to find a TMK bondholder that is a QII and is a Tax II or equivalent investor.

When using a TMK structure, it is also important for the TMK to comply with strict regulations under the ASA. These regulations include a requirement to file an asset liquidation plan with the relevant government authority. The asset liquidation plan of a TMK outlines how its assets are to be liquidated or securitised. A TMK structure requires close attention to be paid to the regulations regarding the asset liquidation plan.

## J-REITs

A J-REIT is a type of investment fund formed under the Act on Investment Trusts and Investment Corporations (AITIC). A J-REIT established to invest in and manage real estate assets uses investors' funds to purchase real estate assets, in return for which investors receive investment units. The investment units of a J-REIT can be listed and traded on the stock exchange. If a J-REIT's investment units are listed, the J-REIT must comply with the rules of the stock exchange in addition to the AITIC. Under the AITIC, a J-REIT must retain an asset management company (a registered financial instruments operator under the FIEA) to manage its investment. In practice, all investment decisions for a J-REIT are designed to be made by its asset management company.

A J-REIT can enjoy preferential tax treatment, which allows the J-REIT to deduct from its taxable profits distributions to the holders of its investment units in addition to deducting debt payments, if certain requirements are satisfied, including:

1. the J-REIT is not engaged in any business other than that permitted for J-REITs;
2. the J-REIT would not be classified as a family corporation as defined in the Tax Code at the end of its fiscal period;
3. the J-REIT distributes more than 90 per cent of its profits as dividends to the holders of its investment units for each fiscal period; and
4. more than 50 per cent of the investment units on an aggregate issued amount basis have been offered in Japan.

The basic concept underlying the J-REIT legislation is that unlike a GK-TK structure or a TMK structure, a J-REIT's investments are not limited to certain assets specified at the time of its start-up. By raising long-term funds through a combination of debt and equity financing, a J-REIT can continue to accumulate and replace its investment portfolio for a longer term. At the same time, however, it would distribute most of its profits (more than 90

per cent) to the holders of its investment units for each fiscal period as described above, and therefore may not have sufficient internal reserve funds.

When structuring a J-REIT, it is important to mitigate the potential risks of not having sufficient funds to deleverage its debt during an economic downturn. Because a J-REIT would practically be restricted regarding the amount of reserves it may retain, it should adopt another financial strategy to mitigate the potential risks, such as keeping its debt-to-asset ratio at a conservative level.

## Real estate ownership

### Planning

#### City Planning Act

The City Planning Act is the primary national law that governs real estate development and zoning. Under the Act, land development is strictly controlled in urbanisation control areas. Developers must obtain approval from local government authorities for developments in areas designated for urbanisation. Approval is given if the proposed development meets certain requirements under the City Planning Act.

There are various local laws established under the framework of the City Planning Act. Local government authorities are granted the power to control land use in accordance with the City Planning Act and the local laws.

#### Building Standards Act

The Building Standards Act provides regulations regarding constructing a building, including regulations regarding its use and the ratio of its total floor area to its site area. Under the Act, the relevant local government authority must approve construction work for a building before the work commences, and a completion inspection of the building by the relevant local government authority is required upon completion of work.

### Environment

Under the Soil Contamination Countermeasures Act, if a manufacturing factory that uses certain hazardous materials ceases its operations, the owner, manager or occupant of the land (the landowner) must examine the land and test for contaminants. In addition, in the case of the development of a large area of land (at least 3,000 square metres), the developer must notify the appropriate local government authority at least 30 days before any change is made to the land. After receiving this notice, if the authority determines that the land may be contaminated in the manner designated by the Soil Contamination Countermeasures Act, it may order the landowner to investigate.

The local government authority may also order a landowner to examine land and conduct testing for contaminants if it determines that the land may harm the health of inhabitants

in the neighbourhood through underground water or otherwise in the manner designated by the Soil Contamination Countermeasures Act. If the result of an examination of the land reveals that the relevant regulations have not been met, local government authorities will designate the land as a contaminated area and require appropriate measures, including clean-up of the land, to prevent public health from being impaired.

## Tax

Stamp taxes, registration and licence taxes, and real estate acquisition taxes apply when the ownership title of real estate is transferred.

### General

Stamp taxes are paid by affixing a revenue stamp on a taxable document. An agreement to transfer the ownership title to real estate requires a stamp tax of progressive amounts generally ranging from ¥200 to ¥600,000, based on the purchase price provided in the agreement. A range from ¥200 to ¥480,000 will apply to an agreement entered into between 1 April 2014 and 31 March 2027.

Registration and licence taxes are imposed when registering certain matters concerning real estate with the appropriate local registry. The tax rate to register a transfer of ownership title to land or buildings is generally 2 per cent. A rate of 1.5 per cent will apply to a registration regarding a transfer of land occurring between 1 April 2013 and 31 March 2026,<sup>[1]</sup> and a rate of 0.3 per cent will apply to a transfer of ownership title to certain qualified residential buildings that are acquired by an individual by 31 March 2027, to be used for residential purposes.

Real estate acquisition taxes are imposed on a purchaser of real estate at a rate of 3 per cent (for land and for residential buildings), or 4 per cent (for non-residential buildings); provided that the reduced tax rate of 1.5 per cent will apply to residential lands that are acquired by 31 March 2027.

### Beneficial treatment

#### Transfer to a TMK

If a TMK acquires real estate and meets certain requirements, it may qualify for the following tax benefits:

1. the registration and licence taxes to register the acquisition until 31 March 2027 will be reduced to 1.3 per cent; and
2. the real estate acquisition tax rate is currently two-fifths of the original rate, and this reduced rate will apply until 31 March 2027.

#### Transfer of trust beneficial interest

Using a trust structure where the trustee holds ownership title to real estate provides certain tax benefits. Stamp taxes for real estate trust agreements and for sale and purchase agreements for a trust beneficial interest in real estate is ¥200, which is substantially less than stamp taxes for a sale and purchase agreement of the real estate itself. While registration and licence taxes and real estate acquisition taxes will be imposed on the purchaser of real estate, the following reduced registration and licence taxes will be imposed on real estate being placed in trust, and on a trust beneficial interest in real estate being transferred from the initial holder to the purchaser:

1. on placing the real estate in trust: 0.3 per cent (for land, until 31 March 2026<sup>[2]</sup>), or 0.4 per cent (for buildings); and
2. on the transfer of the trust beneficial interest: ¥1,000 for each building and piece of land.

Real estate acquisition taxes are not imposed on real estate when it is placed in trust or on the transfer of the trust beneficial interest; however, when the holder of a trust beneficial interest in real estate (other than the initial holder) terminates the trust agreement and receives delivery of the real estate from the trustee, registration and licence taxes at a rate of 2 per cent will be imposed upon registration of the real estate transfer. Upon such a transfer, real estate acquisition taxes will also be imposed on the beneficiary at a rate of 3 per cent (for land and for residential buildings) or 4 per cent (for non-residential buildings).

By applying the tax benefits of a trust structure as described above, a substantial amount of taxes related to the real estate acquisition can be deferred until the trust agreement is terminated and the real estate is delivered to the beneficiary.

Transfer of real estate to a GK-TK structure under the ASJREV

Preferential tax treatment applies to certain GK-TK structures under the ASJREV.

If the GK, as the operator of a special venture under the ASJREV (except where the GK delegates management of transactions related to the real estate to a registered operator of a small-scale specified joint real estate venture) or as the operator of a venture only for qualified special investors under the ASJREV (where the GK delegates the management of transactions related to the subject real estate entirely to a real estate broker licensed under the Real Estate Brokerage Business Act), acquires (1) land satisfying certain requirements to be used as a site for a building with certain scale and quality, provided that such building will be newly constructed or reconstructed by rebuilding a building older than 10 years or seriously damaged by natural disasters, newly constructed on vacant land or created by extension, repair or remodelling of a building older than 10 years or seriously damaged by natural disasters; or (2) a building older than 10 years or seriously damaged by natural disasters to be rebuilt, extended, repaired or remodelled on land satisfying certain requirements, by meeting certain requirements, it may qualify for the following tax benefits until 31 March 2027:

1. the registration and licence taxes to register the acquisition are reduced to 1.3 per cent; and
- 2.

the value of the real estate for the purpose of real estate acquisition tax is deemed to be half of the applicable value with respect to the subject real estate.

The GK as the operator of a small-scale specified joint real estate venture under the ASJREV or as the operator of a special venture under the ASJREV (where the GK as the operator of a special venture delegates the management of transactions related to the subject real estate to a registered operator of a small-scale specified joint real estate venture) may qualify for the following tax benefits until 31 March 2027, if the GK meets certain requirements:

1. the registration and licence taxes to register the acquisition of a building for the purpose of new construction or reconstruction by rebuilding or extension, repair or remodelling will be reduced to 1.3 per cent; and
2. the value of real estate for the purpose of acquisition tax is deemed to be half of the applicable value with respect to the subject real estate, if the real estate is one of the following:
  - a building constructed before 1 January 1982 and acquired for the purpose of extension, reconstruction, repair or remodelling; or
  - land acquired as a site for the building.

## Finance and security

Mortgages on real estate are the most frequently used form of security interest in real estate. In general, once the mortgage is registered, it is granted priority over unsecured creditors; however, even a registered mortgage is subordinate to tax claims against the mortgagor that became due prior to the registration of the mortgage. The registered mortgage will also be subordinate to any previously registered mortgages or other previously registered security interests on the same real estate.

Another form of security interest in real estate that is frequently used is a pledge over a trust beneficial interest in real estate. If real estate is held in the form of a trust beneficial interest in real estate, the lender would create a pledge over the trust beneficial interest and not a mortgage on the real estate itself. Perfection of the pledge is made by obtaining the consent of the trustee with a date certified by a notary public.

TMK bondholders are granted a security interest by operation of law, which is a statutory general security interest on all the current and future assets of the TMK granted in their favour under the ASA. The statutory general security interest will also secure (by operation of law under the ASA) all the TMK bonds subsequently issued; therefore, in many cases, holders of TMK bonds do not create a mortgage or pledge on the real estate or trust beneficial interest in real estate held by the TMK. This is mainly because the mortgage and pledge securing the bonds need to be held by a trustee in accordance with the Secured Bond Trust Act, and additional costs to establish such a trust arrangement are not considered economically justified in many cases.

## Leases of business premises

The Act on Land and Building Leases (ALBL) and the Civil Code regulate real estate leases. The general rule is that the ALBL is applicable to land leases that are made for the purpose of the lessee owning a building on the land and building leases. The ALBL takes precedence over the Civil Code when their provisions overlap.

### Types of lease

The ALBL provides for various types of lease, including the following.

Land lease for the purpose of a lessee owning a building on the land

#### Ordinary land lease

Under the ALBL, a land lease made for the purpose of the lessee owning a building on the land (other than a fixed-term land lease as discussed below) has a 30-year term, unless the parties agree to a longer term. These land leases are automatically renewed for a term of 20 years for the first renewal and 10 years for subsequent renewals unless otherwise agreed by the parties. The lessor cannot object to renewal without a justifiable reason. Generally, a justifiable reason is not easy to establish, and the lessor's refusal to renew the lease is strictly restricted.

#### Fixed-term land lease

A fixed-term land lease made for the purpose of the lessee owning a building on the land is not renewable under the ALBL; however, the parties are not prohibited from entering into a new lease agreement at the expiry of the lease. Fixed-term land leases were introduced because of the concerns of landowners about the strict restrictions on their ability to refuse to renew a land lease, which inhibited the effective use of real estate. There are three types of fixed-term land leases:

1. a general fixed-term land lease available for either residential purposes or business purposes (the fixed term is 50 years or longer);
2. a land lease with a special agreement by which the lessee assigns the building on the land to the lessor (the lease agreement can provide for the lessor's right to obtain the building on the land from the lessee at a reasonable price to terminate the lease after 30 or more years following the commencement of the lease); and
3. a fixed-term land lease for business purposes (the fixed term is 10 years or more but must be shorter than 50 years).

### Building leases

#### Ordinary building lease

A building lease usually has an agreed term. Under the ALBL, a building lease with an agreed term (other than a fixed-term building lease as discussed below) is automatically renewed and the lessor cannot object to the renewal of the building lease without a justifiable reason. Generally, a justifiable reason is not easy to establish and the lessor's refusal to renew the lease is strictly restricted.

#### Fixed-term building lease

A fixed-term building lease is not renewed under the ALBL; however, the parties are not prohibited from entering into a new lease agreement at the expiry of the lease term. The parties can agree on the fixed term without restriction on its duration.

### Typical provisions

There are typical provisions for leases of business premises in Japan regarding increase or reduction of rent, termination and assignment of lease or sublease.

#### Rent increase or reduction

Under the ALBL, if the amount of rent payable becomes inappropriate (e.g., if it differs significantly from the market rent), the lessor or the lessee may request that it be increased or reduced. This applies both to land leases made for the purpose of the lessee owning a building on the land and to building leases. The parties to the lease agreement, however, can eliminate the right to request an increase in rent by agreeing not to increase the amount of rent for a certain period. The right to request a reduction cannot be eliminated from a lease that is not a fixed-term building lease.

#### Termination

Under the Civil Code, if one party breaches an agreement, the other party can terminate it; however, under Supreme Court precedents, a lessor cannot terminate a real estate lease agreement if the lessee can establish the existence of a special circumstance where a relationship of mutual trust remains between the lessor and the lessee even after the breach. Failure to pay rent for several months would usually entitle the lessor to terminate the lease because this non-payment would be regarded as destroying the relationship of mutual trust.

#### Assignment of lease or sublease

Lease agreements usually prohibit the lessee from assigning the lease or subletting without the consent of the lessor.

## Year in review

## The Financial Services Agency's expanded Q&As on REITs' investment into data centres and refrigerated warehouses

On 27 June 2025, the Financial Services Agency (FSA) amended part of its Q&As to provide further clarity regarding the primary investment targets of an investment corporation, used as a vehicle to set up real estate investment trusts (REITs). This amendment was introduced to facilitate REITs' investment in data centres and refrigerated warehouses and to achieve enhanced diversification within the real estate investment management sector.

An investment corporation is a corporate-type investment fund established under the Act on Investment Trusts and Investment Corporations (AITIC). Under AITIC, the scope of assets that an investment corporation may principally invest in is restricted to certain categories defined as 'Specified Assets', which include real estate assets. As the FSA is the authority responsible for enforcing AITIC, its interpretation of the limitation on the types of assets is always the key to REITs. In response to the demand from the market, the FSA proceeded with clarifying its interpretation on what constitutes 'real estate' as a type of Specified Assets.

As it was not clear whether equipment installed in a building should be considered part of the building or movable assets, ongoing uncertainty existed as to whether such equipment would qualify as 'real estate' and therefore constitute a type of the Specified Assets. This raised concerns in the REIT sector that REITs may not be able to pursue otherwise attractive investment opportunities in real estate that inherently involves substantial equipment, such as data centres and refrigerated warehouses.

The FSA addressed this concern by expanding its Q&As to introduce a new interpretation of AITIC. In particular, the Q&As (1) clarified the factors to be considered in determining whether equipment installed for integrated use with a building, such as various equipment in data centres and refrigerator-freezers in refrigerated warehouses, should be regarded 'real estate' as a type of Specified Assets, and (2) identified the circumstances under which certain types of equipment installed in data centres are to be treated as 'real estate'. This interpretation reflects the Civil Code concept of accession under which a movable asset becomes a component part of the relevant real estate. According to the interpretation of the FSA, a piece of equipment installed for integrated use with a building is generally considered as 'real estate' where separating the equipment from the building would result in physical damage or excessive costs, or would cause a significant impairment of economic value or considerable socio-economic disadvantage. Such determination must be based on the specific factual circumstances, including the use, function, form, structure and status of installation with respect to the building and the equipment, comprehensively taking into account, for each piece of equipment, (1) whether any physical damage would occur, (2) the level of costs required for separation, (3) the degree of impairment to economic value and (4) the degree of socio-economic disadvantage.

The clarification made under the amended Q&As is expected to promote greater diversification of investments in the REIT sector and ultimately lead to further growth of the real estate investment market.

## Regulatory development on specified joint real estate ventures

Real estate crowdfunding, a business model that offers interests in real estate investment funds to the public through online platforms, has expanded in recent years, with most of the offerings structured as a specified joint real estate venture regulated under the Act on Specified Joint Real Estate Ventures. However, there is a concern that licensed operators may engage in improper offering or management of real estate investment funds, potentially causing harm to retail investors. In fact, there has been at least one reported case where the concern materialised, resulting in significant losses for a large number of retail investors.

In response, the Ministry of Land, Infrastructure, Transport and Tourism, as the regulating authority on specified joint real estate ventures, established a study group of experts to review the existing regulations. On 1 August 2025, the study group published an interim report recommending: (1) enhanced information disclosure for general investors, (2) ensuring fairness in the sale price and other terms of the underlying real estate, (3) strengthened supervisory functions by administrative authorities and (4) consideration of self-regulatory rules in collaboration with industry associations.

The implementation of these investor protection measures is expected to allow specified joint real estate ventures to provide more reliable investment products to retail investors, and ultimately contribute to further development of the real estate market through investment and funding utilising the framework of the specified joint real estate venture.

## Outlook and conclusions

Following the recovery from the covid-19 pandemic, the Japanese real estate market has continued to present attractive investment opportunities for foreign investors. Japan's robust and well-established legal infrastructure for real estate transactions has made it possible for a number of foreign investments into real estate to be completed successfully. At the same time, efforts to further enhance the competitiveness of the Japanese real estate market have not abated. A notable example of such effort is the government's recent initiative to improve the legal framework to enable REITs to invest in a new asset class – data centres (see 'Financial Services Agency's expanded Q&As on REITs' investment into data centres and refrigerated warehouses' in 'Year in review') – reflecting a responsiveness to evolving market demands and global investment trends. Although the government has begun to review the rules on foreign investment in land in Japan, a development that warrants close attention, we remain optimistic that the Japanese real estate market will continue to offer attractive opportunities to international investors, supported by an enhanced level of stability and confidence afforded by the legal and regulatory framework.

## Endnotes

- 1 Tax reduction may be extended pending a proposal by the Cabinet and approval by the National Diet. [^ Back to section](#)
- 2 See footnote 1. [^ Back to section](#)



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