



## **Investment to Japanese Real Estate**

Currently, the real estate market in Japan has been active due to the low interest rate policy of the Japanese government and continued economic recovery. Demand for offices and hotels, especially in urban areas, has been strong, and large-scale events and developments are scheduled for the Tokyo Olympic and Paralympic Games in 2020, the Osaka Expo in 2025, and the development of integrated resorts. As a result, real estate in Japan is expected to continue to be a more attractive investment target in the future, and the upward trend that has continued since the latter half of 2013 is expected to continue for a long time.

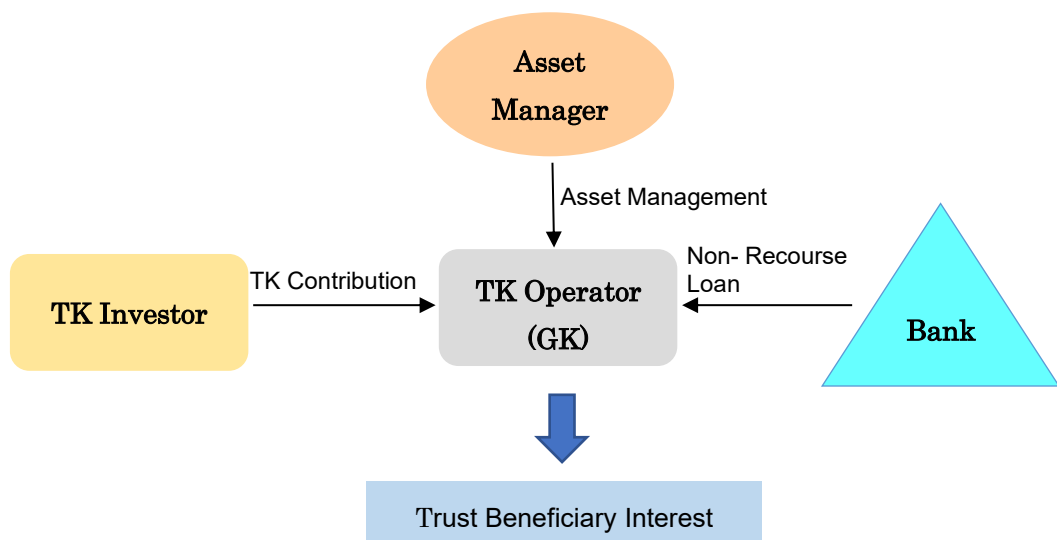
Especially in Japan, private real estate funds are attracting attention because of the higher yield than Japan Real Estate Investment Trust (J-REIT). As of the end of June 2019, analysts estimated that the real estate private funds had a market size of approximately ¥19.2 trillion (USD190 billion) based on the amount of assets under management, which is the largest real estate private funds in the past. Furthermore, in recent years, the proportion of foreign investors who invest in Japanese private real estate funds has been increasing.

The typical investment structures of Japanese private real estate placement funds are "TK-GK Structure" and "TMK Structure". The outline of the main differences is as follows.



### 1. TK-GK Structure

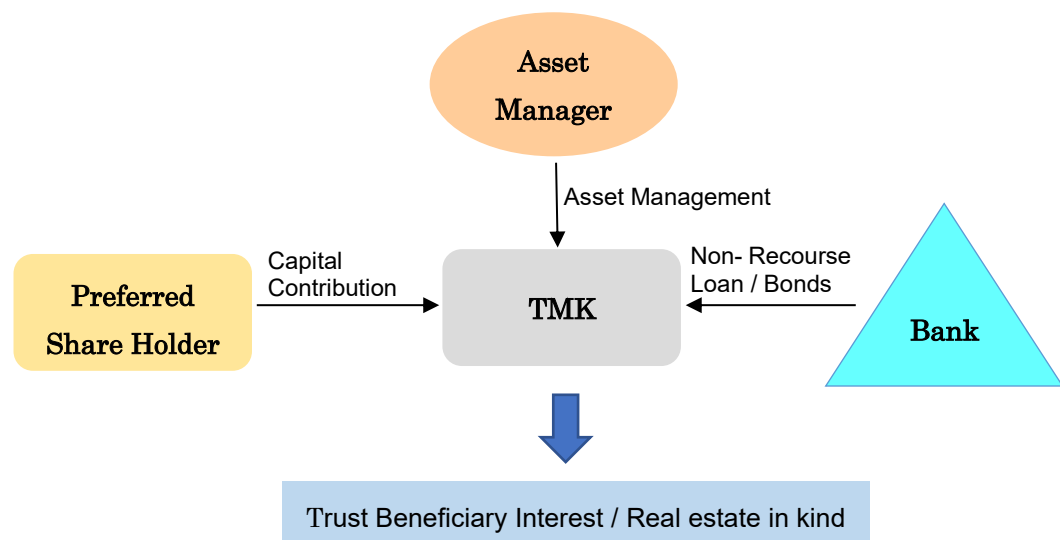
- Tokumei Kumiai (TK) is a contractual relationship defined in the Commercial Code of Japan, where a TK investor contributes money to fund a business of TK operator (typically Godo Kaisha (GK)) in exchange for the right to receive profit from the business.
- TK investor's liability is limited to its contribution. TK investor may not execute the TK operator's business.





## 2. TMK Structure

- Tokutei Mokuteki Kaisha (TMK) is a corporation incorporated under the law concerning liquidation of assets, more specifically, the Law on the Securitization of Specified Assets by a special purpose company (SPC) (SPC law).
- It is subject to various legal requirements (such as submitting of the Asset Liquidation Plan to the regional financial bureau) prescribed in SPC law.





The major differences between TK-GK structure and TMK structure are below:

Description	TK-GK structure	TMK structure
Vehicle to acquire property	Godo-Kaisha	Tokutei Mokuteki Kaisha (TMK)
Type of investment	Tokumei Kumiai (TK) Investment	Preferred Equity
Form of borrowing	Non-recourse loan	Non-recourse loan / Bonds
Ownership of real estate	Trust beneficiary interest to real estate (TBI)	TBI / Real estate in kind
Main features	<ul style="list-style-type: none"> <li>• The procedure is simpler than the TMK structure.</li> <li>• Since it is difficult to hold real estate as real estate under the laws in Japan, the real estate shall become TBI and TBI shall be held.</li> <li>• TBI falls under the category of securities and are subject to the Financial Instruments and Exchange Act.</li> </ul>	<ul style="list-style-type: none"> <li>• Compared with the TK-GK structure, the procedures are more complicated, for example, the preparation of the Asset Liquidation Plan and the submission of the plan to the regional financial bureau are required.</li> <li>• Both can be held as real estate in kind or as TBI. Provided, however, that TBI falls under the category of securities and is subject to the Financial Instruments and Exchange Act.</li> </ul>



As described above, while real estate in Japan is extremely attractive as an investment target, the legal system for real estate and finance in Japan is complicated, and therefore, the selection of lawyers well versed in understanding these legal systems and their application to individual cases is likely to lead to the success of real estate investments.

One Asia Lawyers have a strong focus on sophisticated real estate private equity transactions and covers everything from asset acquisitions/dispositions, joint ventures and financings, to development, distressed debt investments and commercial leasing.

If you have any questions or need further assistance, please contact any of the One Asia Lawyers professionals listed at the end of this brochure.

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