

INTERNATIONAL PROPERTY: TOKYO

Japan Housing Yields Bargains For Foreigners

BY WILLIAM SPOSATO

TOKYO—Canadian Markus Leach figures he has gotten a bargain.

Having left the confines of the world's most-crowded metropolis two years ago, he now lives a 90-minute train ride away in a 3,000-square-foot house sitting on a pristine acre of land overlooking the Pacific Ocean.

The cost? Less than \$500,000.

"Such a property would be at least \$2 million or more back home in Vancouver," said the 53-year-old executive recruiter. In Tokyo, a new condominium, at 760 square feet, sold for an average of \$515,000 in September, according to the Land Institute of Japan.

This seeming bargain is no fluke. While Tokyo keeps its mantle of being the world's most expensive city, a steady migration to urban centers and the country's long-term population decline have left swaths of property that can be had for a pittance by international standards.

Mr. Leach bought his property in 2003 for ¥13 million (equal to about \$120,000 at the time, now about \$162,000). He then shipped over a red-cedar log house from Canada for \$160,000, with the rest going for construction and landscaping.

Bargains like this have proved to be powerful motivators for some foreigners who are willing to deal with the potential pitfalls awaiting anyone dabbling in a foreign country's property market.

On paper, property ownership in Japan is simple. There are no nationality or residency requirements. Title is transferred at the local municipal office, eliminating any need for title searches or title insurance.

And closing costs are just 3% to 5% of the purchase price, according to brokers.

But as everywhere, there may be hidden risks. Only after buying, Mr. Leach found out that no permission had been given to build on the site, even though a house had been there previously. Gaining the required local government approval took two years, a period he describes as "a little scary," but consent was finally given. Construction was a breeze, he said, and Mr. Leach and his Japanese wife are happily ensconced, enjoying the view.

The dilemma for owners like Mr. Leach, however, is that while they may have found bargain properties, the dismal state of Japan's property market makes it tricky to turn a profit. Outside of the big cities, land prices have been falling steadily over the past 20 years, and homes are viewed with little emotional attachment. Anything more than 25 years old is fully depreciated and largely considered worthless by Japanese buyers.

That didn't deter British copywriter David Beeton, who determined that "really old places can't lose any more value."

In 2006, he purchased a 200-year-old thatched-roof house and outlying buildings about an hour from Tokyo that had been the home of a bishop for ¥20 million. After another ¥5 million, or about \$62,500, in renovations and a fair amount of sweat equity, he was able to sell it in 2011 for ¥35 million.

But he said that such a home wouldn't appeal to the average Japanese family. "I found a Japanese couple who had lived for five years overseas," he said.



Canadian Markus Leach, left, bought an ocean-view property 90 minutes by train from Tokyo and added a house shipped from Canada, above.

property here since he was a child. Also, both of my children are fans of Japanese culture," the 48-year-old said.

While she said they were attracted by the fact that rental returns are usually 5% and above, compared with just 2% in Taiwan, they aren't leasing either property, instead using them on their frequent trips to Tokyo. "My husband wants to buy another one for renting out. Then, we'll use the rent money to pay for the management fees on these two," she said.

For those looking for real bargains, there is an English-language website dedicated to foreclosed properties in Tokyo and some other areas that are available via court-sponsored auctions. The site, www.sleepwellhomes.jp, notes that there are more than seven properties foreclosed on every day in Tokyo. Prices, reckons founder Edward Perkich, are 30% below market level.

Other foreign investors are taking a more traditional approach to investing in Japan's property market, that is, buying a condo in an urban area with a management company to handle any issues. The chance for an income stream of 5% to 10% on the investment backed by

a strong legal system have made it popular with investors from elsewhere in Asia.

One such buyer is Julia Chang of Taiwan. She and her husband have purchased two apartments in central Tokyo. "My husband likes Japan and he always had a dream to buy