Urban Redevelopment in Japan

Urban Renewal Coordinator Association of Japan
International Committee
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1. Urban Redevelopment Needs and History
Needs for redevelopment

According to projections by the United Nations and other organizations, the world's population is estimated to reach more than 9 billion by 2050.

About 6 billion people, two-thirds of these people, are expected to live in urban areas. This means that economic activities and livelihoods are concentrated in urban areas.

Housing, healthcare, education and infrastructure are needed in proportion to population growth.

Urban redevelopment is a very effective method of development.
In Japan, the Urban Redevelopment Law was enacted in 1969. Urban plans for redevelopment were created to increase floor area ratios and relax height restrictions, to return development benefits from the reconstruction to the land rights holders and for the improvement of the urban environment.

As a result, we were able to achieve a large number of redevelopment projects.

Redevelopment of Japan
Characteristics of Japan's redevelopment

The characteristics of redevelopment under the Urban Redevelopment Law of Japan are as follows.

1. It is implemented as a city plan.
2. Business is conducted by converting rights and retained floors.
3. Previous asset valuation is performed.
4. There are subsidies (public works).
5. Livelihood rehabilitation (compensation) is provided.
6. Business organizations such as redevelopment associations are formed.
7. Experts and coordinators play an important role.
8. Approximately 40 years of history, with nearly 1,000 districts completed.

Participation of various experts

Realizing redevelopment requires a great deal of expertise. The experts collaborate to promote redevelopment. The areas are as follows:

- Promoting redevelopment projects: Business consultant
- Urban planning, Transport planning: Urban planning consultant
- Preparation of business plan: Business consultant and government offices.
- Conversion of Rights: Business consultant
- Compensation: Compensation consultant
- Valuation: Real estate appraiser
- Legal: Lawyer
- Registration: Judicial scrivener
- Accounting tax system: Accountants and tax accountants
- Architectural design: Architect and Design office
- Construction work: Construction company and CM company
- Development Capital Investment: Developer
- Sales and management of floors: Developers and Building management company
The redevelopment building will be constructed and completed at the initiative of public organizations and residents, and through the procedures of city planning decisions, project planning decisions and rights conversion plans (or management and disposal plans).

**Flow of Japan's redevelopment**

**Preparation and examining phase**

- **Type 1 urban redevelopment project**
  - Commitment to community development
  - Establishment of study meetings and councils
  - Establishment of Preparatory Union

- **Type 2 urban redevelopment project**
  - Commitment to community development
  - Establishment of study meetings and councils
  - Establishment of Preparatory Union

**Planning phase**

- **City planning decision**
  - Determination of city plans for advanced use districts, special urban renaissance districts, district plans, etc.
  - City planning decision of urban redevelopment promotion area
  - For Type 1 urban redevelopment projects: City planning decision

- **Basic design and fund planning**
  - For Type 2 urban redevelopment projects: City planning decision
  - Areas for redevelopment, layout of roads and parks, outline of buildings, etc. are stipulated in city plans.

- **Increasing momentum for local redevelopment and formulation of basic concepts by local governments.**

- **Considering the image of redevelopment research and redevelopment by volunteers.**

- **Established a preparatory organization and examined facility plans, financial plans, and rights conversion models. Build consensus among right holders.**

- **Make a basic design and business plan for the implementation of the project, summarizing the intentions of the parties concerned with the project.**
### Type 1 Urban Redevelopment Project

- **Implementation Phase**
  - Decision and approval of business plans, etc.※Establishment and approval of unions
  - Offer, etc. to the effect that he/she does not wish to convert rights

- **Construction Phase**
  - Preparation of Implementation Design and Rights Conversion Plan, Compensation Discussion
  - Decision and approval of the rights conversion plan

- **Conversion Phase**
  - Conversion of Rights (Date of Conversion of Rights)

- **Project Completion**
  - Start of construction of buildings, etc.
  - Preparation of management and operation plan

- **Completion of Construction**

- **Liquidation** * Dissolution of the union

- **Management and Operation of Buildings**

### Type 2 Urban Redevelopment Project

- **Implementation Phase**
  - Decision and approval of business plans, etc.

- **Construction Phase**
  - Decision and approval of management and disposal plan

- **Conversion Phase**
  - Land acquisition

- **Project Completion**

- **Completion of Construction**

- **Liquidation**

- **Management and Operation of Buildings**

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- **Establish business plans and rules for redevelopment projects and obtain approval from the governor, etc.**

- **In the case of Type 1, the employee wishing to move out. In the case of Type 2, the employee wishing to relocate, will apply.**

- **Design the details of the redeveloped building and determine the location, area and compensation of the floor to be acquired by each owner.**

- **Obtain the approval of the governor, etc. regarding the rights conversion plan, etc.**

- **The previous rights of the right holder shall be extinguished and the right in lieu thereof shall be acquired.**

- **Determine maintenance and management rules for redeveloped buildings and facility management policies.**

- **After completion of the construction, the rights of the redevelopment building are delivered and each right holder is re-occupied.**

- **Complete the business by liquidating the price of rights acquired by each right holder and the income and expenditure of the business.**

- **Organize and manage redevelopment building management unions.**
Effects of redevelopment

Japan's redevelopment is carried out by valuating the rights of former rights holders and acquiring a right floor for the valuation in a new building.

This is called the conversion of rights.

Accordingly, former rights holders can continue without relocating their residence or business.

It is possible to promote the development of cities while preserving the rights of former right holders.

<Effects of redevelopment>
• Development of Transport Bases
• To develop dense urban areas
• Supply of housing
• Base development

The process of rights conversion

2. Urban Planning for Redevelopment

Japan's redevelopment is carried out as a city planning project. This enables subsidies and compensation. Urban planning procedures of the government are necessary for implementation as city planning. Japan's redevelopment begins with city planning.

① The government indicates the policy of redevelopment.
② Identify areas to be redeveloped and develop a redevelopment master plan.
③ Extract the redevelopment project areas and prepare a draft basic redevelopment plan.
④ The Draft Basic Plan for Redevelopment shall be formulated as a city plan.
⑤ Conduct procedures for consensus-building of rights holders, establishment of redevelopment organizations, private project participants, subsidies and compensation for the implementation of redevelopment.

- Formulation of government redevelopment policy
- Creation of a redevelopment master plan for municipalities
- Selection of redevelopment project areas and preparation of draft basic redevelopment plan
- Drafting urban redevelopment plan
- Deliberations of the city planning council
- Decision on city planning for redevelopment

Obtain Consensus
- Rights holder organization
- Participation of private companies
- Subsidy
- Compensation expense
Sample of Redevelopment Policy (Tokyo)

City planning area
Urban areas
District of type 1 where require planned redevelopment
Priority redevelopment area where especially promote integrative and comprehensive redevelopment
Inducing district where is second priority redevelopment area

Source: Tokyo HP (http://www.toshiseibi.metro.tokyo.jp/seisaku/master_plan/master02.htm)
Sample of City Master Plan (Shinjuku Ward)

Map: City Composition

Map: Objectives for Land Use

Source: Shinjuku City Comprehensive Plan (http://www.city.shinjuku.lg.jp/content/000257303.pdf)
Sample of City Master Plan (Shinjuku Ward)

Source: Shinjuku City Comprehensive Plan (http://www.city.shinjuku.lg.jp/content/000257303.pdf)
Sample of Basic Redevelopment Plan (for the area)

A town with diverse charms, KOIWA

Matters to be studied in city planning decisions

In order to make city planning decisions for redevelopment, the following items must be considered.

| I  | Location of the planned site | 1. Location of the planned site  
2. Background to date  
3. Current Situation of Urban Planning  
4. Planned site status  
5. Development trends in the vicinity of the planned site  
6. Status of Right Holders |
|----|------------------------------|---------------------------------------------------------------------------------------------------------------|
| II | Positioning in Upper level plan | 1. Upper level plan of Tokyo Metropolitan Government  
2. Upper level plan of the ward  
3. Other related plans, etc. |
| III| Policies for redevelopment projects, etc. | 1. Approach to the Application of Urban Redevelopment Projects  
2. Current issues at the planned site  
3. Basic redevelopment policy  
4. Land use policy  
5. Policy for Improvement of Public Facilities |
Matters to be studied in city planning decisions

In order to make city planning decisions for redevelopment, the following items must be considered.

| IV Overview of the redevelopment project plan | 1. Outline of Facilities and Buildings  
2. Concept of Housing Planning  
3. Community Development for Welfare  
4. Greenery Planning  
5. Landscape planning  
6. Traffic planning  
7. Parking plan  
8. Bicycle parking plan  
9. Supply processing plan |
<table>
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<tbody>
<tr>
<td>V Disaster Prevention Activities</td>
<td></td>
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</tbody>
</table>
| VI Impact on the surrounding area             | 1. Wind environment  
2. Sun shadow diagram  
3. Radio disturbance |
In order to make city planning decisions for redevelopment, the following items must be considered.

| VII Environmental initiatives | 1. Greening plan  
<table>
<thead>
<tr>
<th></th>
<th>2. Measures to Reduce Environmental Impact</th>
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</table>
| VIII Estimated project expenses, etc. | 1. Approximate fund plan  
|                              | 2. Concept of rights conversion |
| IX How to proceed in the future | 1. Future schedule  
|                              | 2. Ward's View on the Project |
| X Relevant city planning | 1. Type 1 urban redevelopment project (area decision)  
|                              | 2. Highly-utilized districts (determined by districts)  
|                              | 3. District Plan (Area Decision)  
|                              | 4. City Planning Parking Lots (Determined by Wards) |
In the redevelopment project, the method of acquiring the floor (land and building) of a new building is generally adopted in accordance with the “Previous Asset Amount” of the owner of the land and building in accordance with the "Urban Redevelopment Act." This is called the "conversion of rights."

Those who do not wish to use the floor of a new building can receive "monetary compensation" in accordance with the "amount of previous assets."

The project expenses for the construction of new buildings are covered by the proceeds from the sale of the floor of the newly constructed buildings other than those subject to the conversion of rights to developers, etc. and by subsidies, etc. provided by the national and local governments.
Major parties involved in urban redevelopment projects

Urban redevelopment projects consist of the cooperation of three parties:
① landowners (owners of land and buildings)
② those who acquire reserve floor space (developers, etc.)
③ the national and local governments

Source: Ministry of Land, Infrastructure and Transport
Operators

As a redevelopment project executor

Offer to receive compensation in money without conversion of rights
(Within 30 days after the announcement of the approval of the project)

Base date of the valuation
(Date of Evaluation of Previous Assets) (31st Day after Public Notice of project approval)

Public Inspection of the Rights Conversion Plan
(Not required with the consent of all right holders concerned)

Application for Approval of the Rights Conversion Plan

Rights Conversion date
(Date of Conversion of Rights)

Construction and completion

Determination and Liquidation of Value
(Procedure for Determining the Value of Conversion of Rights)

Authorization Right Holder
(Prefectural and city governments, etc.)

Approval of the redevelopment project

Approval of a rights conversion plan
Major points where consensus building can be achieved through the conversion of rights

1. Effective use of land is possible.
   (By increasing the floor-area ratio based on city planning, we can convert from low-rise to high-rise use, and by developing roads we can make fragmented land into large-scale building sites.)

2. Flexible response based on individual circumstances of landowners
   (A floor for a variety of purposes may be acquired as a floor of right, and the whole or a part of the previous assets may be acquired in monetary form.)

3. It is possible to acquire the floor of the right at an equivalent rate by the conversion of rights.
   (In principle, you do not need your own funds, and the cost of the relocation will be reimbursed by the Operator.)

4. The executors support the surrender of existing tenants and the selection of temporary residences, temporary stores, and relocations during construction, etc.

5. Tax incentives are available
   (The additional depreciation deduction of fixed asset tax, the real estate acquisition tax, the registration, license tax on the floor of the right shall be exempt. In the event of transfer, a special tax credit for income tax shall be obtained under certain conditions.)

6. There is a subsidy system for executing the system from the national and local governments.
In Japan, land and buildings are positioned as separate properties. Therefore, land and buildings are evaluated individually.

Typical assets subject to rights conversion in the redevelopment business are Building sites, Land lease rights, Leased fee interest in land, Buildings, and Tenant’s right.

The floor of the redevelopment building will be acquired by the same amount of value depending on the amount of these assets.

Under the Urban Redevelopment Law, the previous valuation criteria for assets are defined as "equivalent value determined by taking into consideration similar transaction prices in the neighborhood."

In valuating previous assets, the impartial valuation standards are established by the executors to prevent unfairness between the rights holders. In accordance with these rules, the real estate appraiser, who is an expert in real estate appraisal in Japan, needs to determine the value of the rights holder based on objective appraisal values by a third-party appraiser.
The Concept of Previous Land Valuation

- In general, standard parcel is set for each area similar to the situation within the implementation area. Each standard parcel is valuated in consideration of marketability and profitability, and the balance with Land Market Value Publication, etc. (publicly announced land price index).

- Next, the property-specific ratio based on property-specific value influences (location, shape, size, connecting road, etc.) is valuated by comparison with the standard parcel, and the value of each building site is valuated.

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Market Approach
(Sales comparison approach)

Income Approach
(Income capitalization approach)

Verification from the Land Market Value Publication, etc.

Standard price

Property-specific ratio for each lot
Property-specific value influences, such as Location, shape, size, and connecting road, will be considered to assess property-specific ratio for each lot.

For each Beneficiary Certificate Holder
Previous land price
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The Concept of Previous Building Valuation

• Since there is no transaction for only buildings, the building is valued on a building-by-building basis in consideration of the current structure (wooden, RC, etc.), use (residence, retail, etc.), specifications, and scale.

• In general, the appraisal value is valued by deducting the estimated accrued depreciation depending on number of years and the condition of maintenance and management from the construction cost (reproduction cost) when a similar building is constructed at the time of the appraisal.

Costs of construction Approach (Cost Approach)

Reproduction cost
Assess the cost required to construct a new building based on the structure, use, specifications, and scale of the building.

Discount rate for each building
Assess the proportion of present value by considering the number of years elapsed for each building.

The value of individual buildings
Valuation of Land Lease Rights and Leased Fee interest in land

- In general, the valuation of land lease rights and leased fee interest in land is valuated the land as vacant land for which no land lease rights have been established, and distributing the vacant land value based on the percentage of land lease rights agreed upon between the landlord and the tenant.

Treatment of Tenant’s right

- With respect to the tenant's right, at the option of the owner of the tenant's right, the tenant's right is "re-occupied in the redeveloped building" or "moved out of the business area, i.e. received compensation for the extinguishment of the tenant's right through monetary compensation."
- In the case of "Re-occupancy to Re-development Building", in principle, the previous tenant’s right is not valuated.
The owner of the site is entitled to the floor of the redevelopment building and the right of the land (post-asset) of the same value as the previous asset.

The value of the floor of the redevelopment building is determined by post-asset valuation.

In the post-asset valuation, experts such as business consultants and real estate appraisers valuate the cost floor value and market floor value of the redeveloped building.

The Urban Redevelopment Law stipulates that the value of assets shall be determined on the basis of reasonable prices determined in consideration of expenses required for Type 1 Urban District Redevelopment Projects and transaction prices similar to those of neighborhoods.

The floor cost of each individual unit is calculated by allocating the total floor cost in a value ratio corresponding to the use, floor, location, area, etc. of each individual unit.
The cost floor value is determined by the sum of the cost of the redevelopment project expenses minus the subsidy income (business expenses to be recovered through the disposal of retained floors) and the previous asset value (the value of the right floor) subject to the right conversion.
The Concept of Market Floor Value

- Market floor value refers to the probable value that would be formed in a market that satisfies conditions associated with a rational market under actual socio-economic circumstances.
- Market value is determined by applying the real estate appraisal method.

Determination of the Cost Floor Value

- The value of floor of right is determined between the cost floor value and the market floor value.
- The value of the reserve floor space shall be determined in accordance with the approach to the market floor value.
5. Subsidies for Redevelopment Projects

• Redevelopment projects are regarded as public works projects, and the national and local governments are allowed to subsidize part of the project cost to the project executors.

• Not all redevelopment projects are eligible to receive subsidies, but the appropriateness and amount of subsidies are decided after consultation with local governments (mainly municipalities) for each project.
### Type of Subsidies

In redevelopment projects, the main subsidies to be received by the project executors are called "Comprehensive Grants for Social Infrastructure Development." There are three types of subsidies (*as of 2017*).

<table>
<thead>
<tr>
<th>Type</th>
<th>Outline</th>
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<tbody>
<tr>
<td>Urban Redevelopment Projects</td>
<td>Subsidies are provided for urban redevelopment projects under the Urban Redevelopment Law. The main project costs are as follows:</td>
</tr>
<tr>
<td></td>
<td>[Research and design planning expenses] Design expenses required for joint development, right conversion plan preparation expenses, etc.</td>
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<tr>
<td></td>
<td>[Land development expenses] Cost of disposing of existing buildings for vacant land Compensation cost, etc. required for surrender</td>
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<tr>
<td></td>
<td>[Cost of joint facility development] Expenses spent for the construction of facilities and common elements of buildings. For example common traffic areas, vacant land, supply processing facilities, parking lots, disaster prevention facilities, etc.</td>
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</table>
6. Compensation for Redevelopment Projects

• In the redevelopment project, the government will compensate the right holders who replace the current value of the property in the area with the value of the new redevelopment building (e.g., convert rights) or the right holders who move out of the area without wishing to convert rights for losses arising from the surrender of the land and building.

• The amount of compensation paid to each right holder shall be calculated objectively and paid to the right holder based on the fixed rules of compensation standards established by the association in accordance with compensation for losses in public works projects.
Types of Compensation

In the redevelopment project, compensation paid by the project executor is divided into the following two types.

1. Compensation for Land and Building of the Person who is transferred not requiring a transformation of rights
   【Rationale】Article 91 of the Urban Redevelopment Law
   【Subject Person】Owner of the land and buildings who wished to move out of the area
   【Amount】Appraised value of land and buildings (purchased by the project executor)
   【Timing of payment】Payment is made by the right conversion date.

2. Compensation for Loss caused by surrender of Land and Buildings
   【Rationale】Article 97 of the Urban Redevelopment Law
   【Subject Person】Owner of the Land and Buildings, Tenant Right Holder, etc.
   【Amount】Amount calculated by Compensation consultant, who is an expert in calculating compensation expenses in Japan, with conducting surveys of the current status of buildings and business operations.
   【Timing of payment】Payment shall be made by the date of surrender of the Land and Buildings, etc.
   (Date specified by the project executor on the day thirty days or more after the Date of Conversion of Rights)
7. Redevelopment Organization

There are five organizations that implement redevelopment.

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<thead>
<tr>
<th>Operators</th>
<th>Requirements of the operator</th>
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<tbody>
<tr>
<td>1: Urban Redevelopment Associations</td>
<td>If five or more owners or leasehold owners of land in the project execution area jointly fulfill certain conditions (area of 5,000 m² or more), the association may be established and become an executor of the redevelopment project. Owners and landowners in the district are all members even if they disagree with the business.</td>
</tr>
<tr>
<td>2: Individual</td>
<td>Owners or leasehold owners of land in the project execution area or persons who have obtained such consent may jointly become executors with one or more persons. In the case of individual implementation, it is not necessarily necessary for all right holders in the implementation area to be the project executors (up to five persons may be allowed), and it can be implemented without the decision on the city plan for the redevelopment project.</td>
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<tr>
<td>3: Redevelopment company</td>
<td>For the main purpose of implementing urban area resumption projects, owners of two-thirds or more of the land in the implementation area and landowners lease right may become the project executors if the stock company has a majority of the voting rights.</td>
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<tr>
<td>4: Local governments</td>
<td>Local governments can execute urban redevelopment projects mainly for the purpose of developing public facilities such as squares in front of stations, streets, disaster prevention parks, etc.</td>
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<tr>
<td>5: Urban Renaissance Agency, etc.</td>
<td>The Urban Renaissance Agency may implement urban redevelopment projects when it is necessary to develop and improve areas that should promote redevelopment or to implement them in conjunction with the construction of rental housing, when it is necessary to implement them in conjunction with the construction of housing operated by the Public Corporation.</td>
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8. What are Urban Renewal Planners?

What are Urban Renewal planners?

‘Urban Renewal planner’ is the title of a professional engineer who has passed the Urban renewal planner examination conducted by the Urban renewal coordinator association and has been registered. Consultation services are provided for planning and advancing redevelopment projects.

Need for Urban Renewal planners

The promotion of redevelopment requires the participation of a wide variety of experts, including right holders, government offices, developers, architects, lawyers, tax accountants, commercial consultants, real estate appraisers, land and house surveyors, and construction companies.

From the viewpoint of property protection and livelihood reconstruction for landowners, the 'regional development leaders' who are responsible for promoting the project are playing as important role in the promotion of redevelopment projects as Urban Renewal planners. They are responsible for ensuring consistency with various legal systems, choosing the most appropriate business methods, and coordinating with various experts.
9. Case of Redevelopment in Japan

【Under Construction】

Roppongi Hills (Roppongi 6chome district Type 1 urban redevelopment project)

Futakotamagawa Rise (Futakotamagawa East district Type 1 urban redevelopment project)

Sakurajosui Gardens (Sakurajosui Reconstruction of Condominiums)

Source: Nikken sekkei Ltd

Sogawa Ferio (Sogawa street south district Type 1 urban redevelopment project)

Source: URCA landscape pamphlet

Riverwalk Kitakyushu (Muromachi 1chome district Type 1 urban redevelopment project)

Source: Urban Renaissance Agency HP