

# PROMOTE OF THE SUSTAINABLE PROPERTY USE BY PROACTIVE INVOLVEMENT OF PROFESSIONALS INTO INHERITANCES

## -CASE STUDY OF FAMILY OFFICE AND PROPERTY PORTFOLIO MANAGEMENT IN JAPAN-



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# CONTENTS

1. **Issues of abandoned residentials**
2. Supports and solutions that consultants can provide
3. Case study: consultancy advice enhanced total asset value
  - 3-1 Background and issues
  - 3-2 Solutions provided by the consultant
  - 3-3 Solutions for abandoned houses
  - 3-4 The impact of professional advice on the total portfolio value
4. Portfolio development for future generations –Family office management–
5. Challenges
6. Conclusions

# 1 ISSUES OF ABANDONED RESIDENTIALS

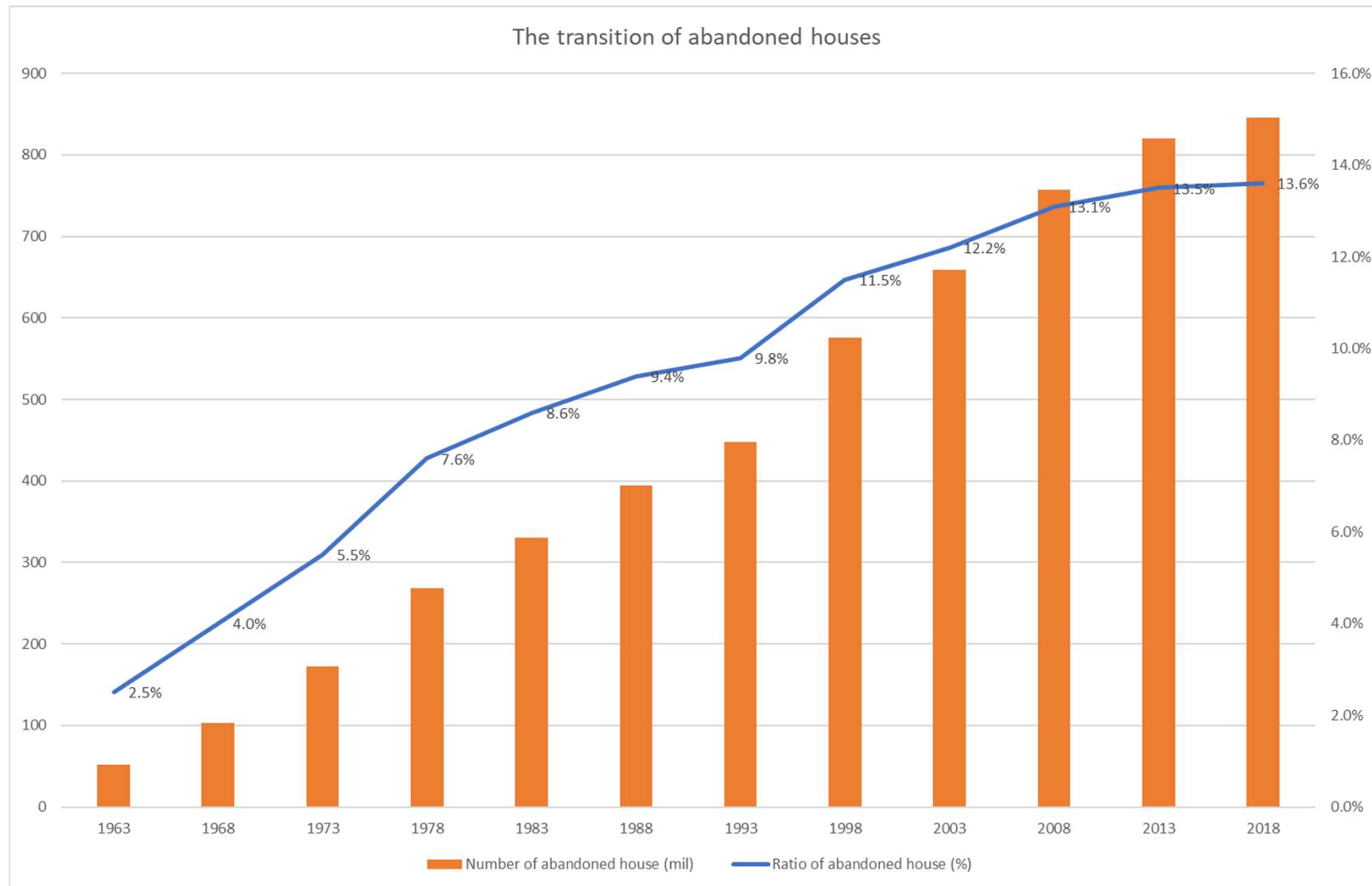


# ABANDONED RESIDENTIAL HOUSES



Photos: by MLIT “In measures against vacant houses, collection of examples of utilization of the property management system

# ABANDONED RESIDENTIAL TRANSITION



(Source: “Residential properties and land statistics (2019)” Japanese Statistics Bureau 2019. 4.31)

# REASONS FOR THOSE ABANDONED HOUSES

1 ) Children have already possess their own residential properties,

2) Less liquidity of inherited asset portfolio, which means that the majority of the value of the inherited assets comes from the real estate while the liquid assets count for the small portion of the portfolio.

3) Most of inheritance, the successors (children) have agreed with the co-ownership under which each of siblings share the equal interest. This has made difficult to dispose assets as it requires full consent of all co-owners.





# REASONS FOR THOSE ABANDONED HOUSES

4) Reluctance to spend necessary costs such as tax burden, refurbishment, and capital expenditure to revitalize properties.

5) Children have almost no reserve for renovation or redevelopment of assets to be inherited as they have spent most of their financial reserves to maintain their own assets.



## WHY ARE THOSE PROBLEMS?

With those reasons,  
abandoned residential  
properties have been a  
serious issue in Japan since

- 1 they damage the urban  
landscapes,
- 2 urban planning from  
disaster management view  
point,
- 3 wasting social resources,
- 4 increase the potential  
crimes.





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## 2 SUPPORTS AND SOLUTIONS THAT CONSULTANTS CAN PROVIDE



# SUPPORTS AND SOLUTIONS THAT CONSULTANTS CAN PROVIDE

Issues & Challenges	No consultancy	With Consultancy	Tools and approaches
<b>Lifestyle shift</b>	Leave abandoned houses after children's independence	Implement system which parents can generate cash flow while living with children	Proposing innovative residentials, modification, refurbishment
<b>Asset Portfolio</b>	Majority is real estate (non-current)	Increase cash reserve	Develop portfolio including liquid asset
<b>Co-ownership</b>	Agreed co-owner, postpone issues	Succession advises from early stages to save cash to be distributed	Succession planning Educational support for younger generation
<b>Tax burden</b>	Surprise, no choice but paying at succession	Parents can get prepared in early stage	Tax saving while transforming assets
<b>Long term sustainable value up</b>	No fund for re-development	Downpayment and finance	Fund raising and financial advice to maximize the return



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## 3 CASE STUDY: CONSULTANCY ADVICE ENHANCED TOTAL ASSET VALUE

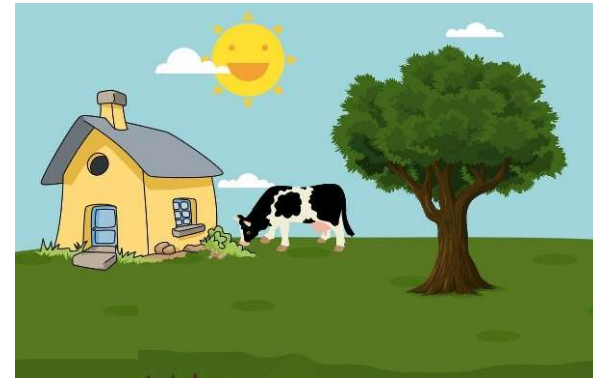
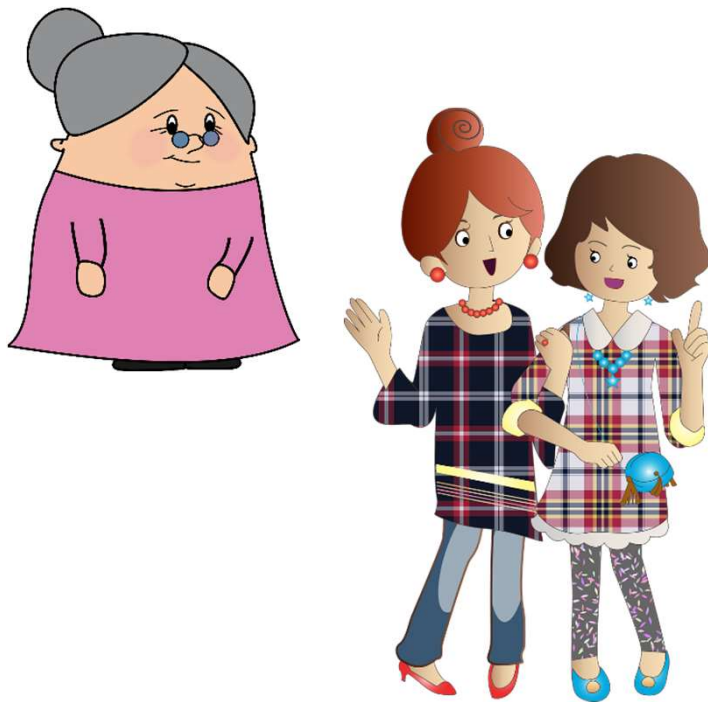
### 3-1 BACKGROUND AND ISSUES



# CASE

## Owner Family description

the property owner, a widow with two single daughters, had a parcel of large land and an old apartment.



The case was provided by the K Consulting K.K.  
(<https://www.kconsulting.co.jp/>)



## CASE WHAT ARE THE ISSUES?

1. How to avoid inheritance tax, which may mostly come from the large parcel of land and apartment,
2. How to secure the residence of two daughters for their life time,
3. How to raise the reserve for redevelopment of the apartment,
4. Maintain the family ties over the succession, and property wise,
5. How to deal with the land which was designated “farm” under Japanese law, from asset management point of view.

## WHAT WOULD THE CONSEQUENCE WITH NO CONSULTANCY?

1. Daughters had to sell the land and apartment to pay an inheritance tax.
2. They would have got stuck with no solutions for above issues even though some money would have left to them after paying the tax.
3. They would have spent resources in solving co-ownership to complete sales
4. They still must have considered how to create their fortune which covers their lifetime expense.

## 3 CASE STUDY: CONSULTANCY ADVICE ENHANCED TOTAL ASSET VALUE

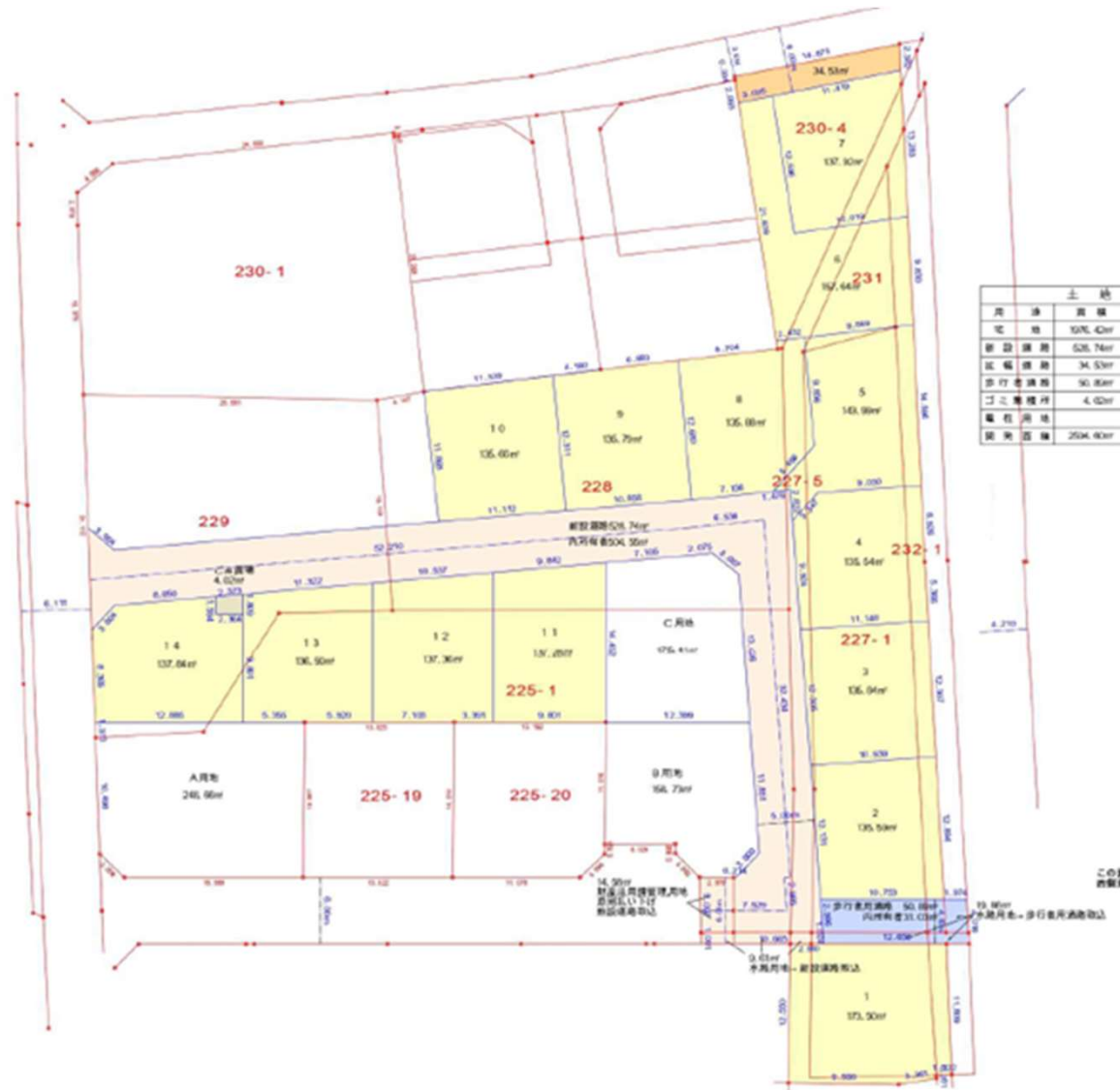
### 3-2 SOLUTIONS PROVIDED BY THE CONSULTANT



## WHAT WOULD THE CONSEQUENCE WITH CONSULTANCY?

1. The estimated price of the large parcel of the land in the portfolio was, 150,000USD as of the inheritance time.
2. After the involvement of the consultant, the value of this parcel of land was increased to 918 K USD, almost six times higher than that of before consultant's involvement.

# THE DEVELOPMENT PLAN PROPOSED BY CONSULTANT



# BEFORE AND AFTER CONSULTANT' S SUPPORT

Before		After	
Land Area sqm	2,594.60	Number of units	14.00
Price JPY/sqm	7,000	Lands for the residential Site sqm	1,976.42
Land price in total USD	151,350	Roads for access	614.16
Land price in total KJPY	18,162	Disposal	4.02
Price USD/sqm	58	Land area for residential sqm	1,976.00
		Cost for land development K JPY/sqm	20
		Land price for sale detached house K JPY/sqm	100
		Sales expense (% against sales)	8.0%
		Profit (Interest rate)	15%
		Land price entire parcel K JPY	110,200
		Land price entire parcel USD	918,333
		Land price entire parcel K JPY/sqm	42,500
		Land price entire parcel USD/sqm	354





## SOLUTIONS PROVIDED BY THE CONSULTANT

1 They developed a rough plan for this large parcel of land and identified fundamental conditions of development and arranged a bid.

Conditions are

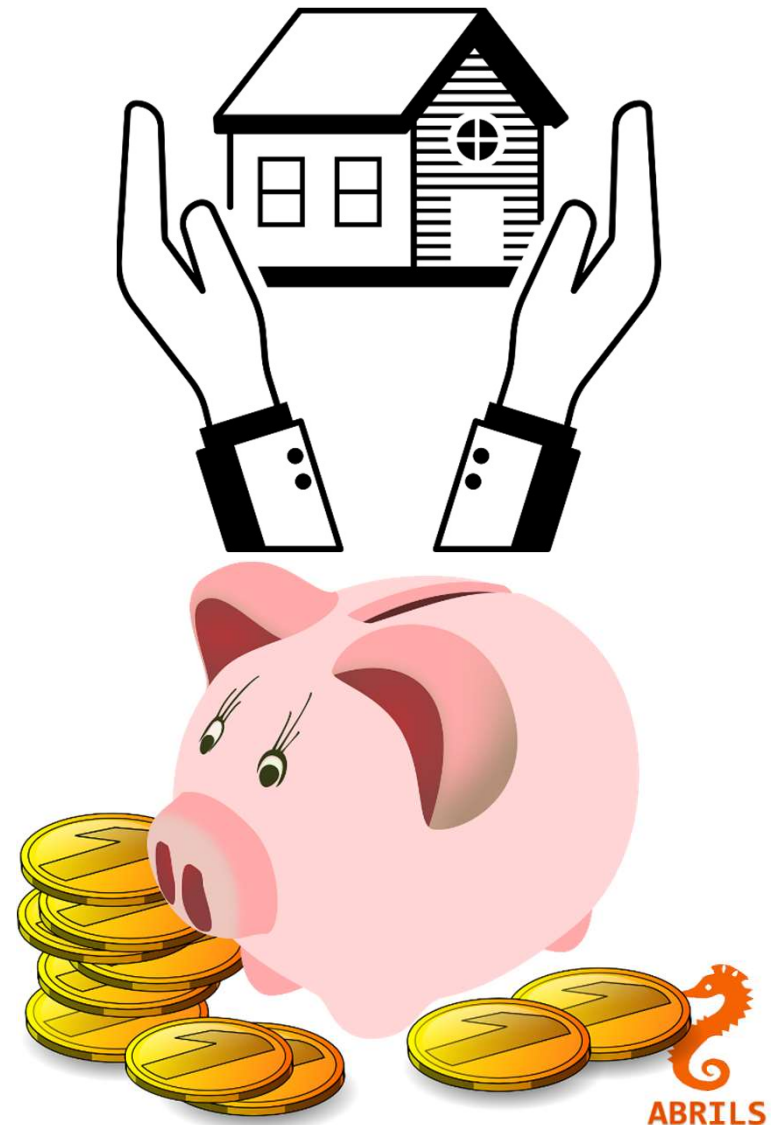
- i) creating accesses in the area,
- ii) secure unsold parcels with improvements for the daughter,

2 This bid maximized the value of this large parcel of land and the owner obtained cash reserve, which allows the successors to divide assets over inheritance.



## SOLUTIONS PROVIDED BY THE CONSULTANT

- 3 The fund also allows the owner to arrange the finance sufficient to demolish the old apartment and redevelop it. This also helps to provide cash income to cover the living expenses for two daughters for their lives.
- 4 The other daughter who did not have the residential unit from the development project took one unit in the apartment, so that she can manage the property while getting the cash inflow as well as accumulating reserves for future capital expenditure



# SOLUTIONS PROVIDED BY THE CONSULTANT

- 5 The sales of this parcel of land allowed the owner to redevelop the existing apartment.
- Thus, new apartment generates more cash flow despite of the debt service paid to the bank.
- Such added value also looks beneficial to the owner in a sense that asset portfolio solved many of their issues: tax, place to live, and cost of living.



## 3 CASE STUDY: CONSULTANCY ADVICE ENHANCED TOTAL ASSET VALUE

### 3-3 SOLUTIONS FOR ABANDONED HOUSES



## SOLUTIONS FOR ABANDONED HOUSES

In this asset portfolio, the owner has an old apartment. Without appropriate advice, the owner would have kept accepting a low rent income.

The asset itself would have got older and older, the tenants would have gradually evacuated the asset, and the property would have been ended up as “abandoned asset”.

However, with the consultant’s advice, the owner decided to sell the large parcel of land, created the fund for the redevelopment, and with the finance, they were able to redevelop the apartment.

The value increase, based on the appraisers’ calculation was as follows.



# SOLUTIONS FOR ABANDONED HOUSES

	Old property	New Property
Revenue		
Unit	6	20
Rent / unit	35,000	70,000
Total Revenue	2,520,000	16,800,000
Vacancy	6%	3%
Effective revenue	2,368,800	16,296,000
Expense		
Property Tax	544,000	3,230,000
Repair& Maintenance	210,000	1,650,000
Property Mangement	118,440	325,920
Capital expenditure	350,000	3,300,000
Total Expense	1,222,440	8,505,920
Net income	1,146,360	7,790,080
Cap rate	8.0%	5.0%
Property Value JPY	14,300,000	156,000,000
Property Value USD	119,167	1,300,000





### 3 CASE STUDY: CONSULTANCY ADVICE ENHANCED TOTAL ASSET VALUE

#### 3-4 THE TOTAL PORTFOLIO VALUE INCREASE



## THE TOTAL PORTFOLIO VALUE INCREASE

Consultant advice ultimately contributed to the total value increase of the assets.

Total Portfolio Value (USD)				
Before			After	
Land	151,350		Land	918,333
Apartment	199,167		Apartment	1,300,000
Total	<b>350,517</b>			2,218,333
			Finance	-1,083,333
			Net Total	<b>1,135,000</b>
			Times ×	3

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## 4 PORTFOLIO DEVELOPMENT FOR FUTURE GENERATIONS -FAMILY OFFICE MANAGEMENT-



## PORTFOLIO DEVELOPMENT FOR FUTURE GENERATIONS -FAMILY OFFICE MANAGEMENT-

- In this case, both daughters are single and no children.
- It's better for a family to prepare for the future generations such as grandchildren.
- Parents' generation (G1) must consider how to support their future generations,
- For this wealth development and management, the concept of family office has been used in Japan.



# PORTFOLIO DEVELOPMENT FOR FUTURE GENERATIONS –FAMILY OFFICE MANAGEMENT–

- A family needs to set up a small company, (Godo Kaisha GK),
- A holding company to a business family,
- This has been dealing with one or more businesses.
- Even though a family does not have such a principal business,
- They have turned themselves into an owners' position from the simple successors' position, they can focus on asset management.





## PORTFOLIO DEVELOPMENT FOR FUTURE GENERATIONS –FAMILY OFFICE MANAGEMENT–

- For instance, assume that the annual net income from their asset portfolio is 3 percent, as this yield is compounded over 30 years, the total asset would be grown by 2.5 times.
- If the return is seven percent, which does not seem to be so ambitious, and it is compounded over 70 years, which means handing over for next two generations,
- the total return would be more than 110 times.

# PORTFOLIO DEVELOPMENT FOR FUTURE GENERATIONS –FAMILY OFFICE MANAGEMENT–

Compounded asset growth indicator



Yield	Year	Growth
3%	30	2.42726
3%	50	4.38391
3%	70	7.91782
5%	30	4.32194
5%	50	11.4674
5%	70	30.42643
7%	30	7.61226
7%	50	29.45703
7%	70	113.9894



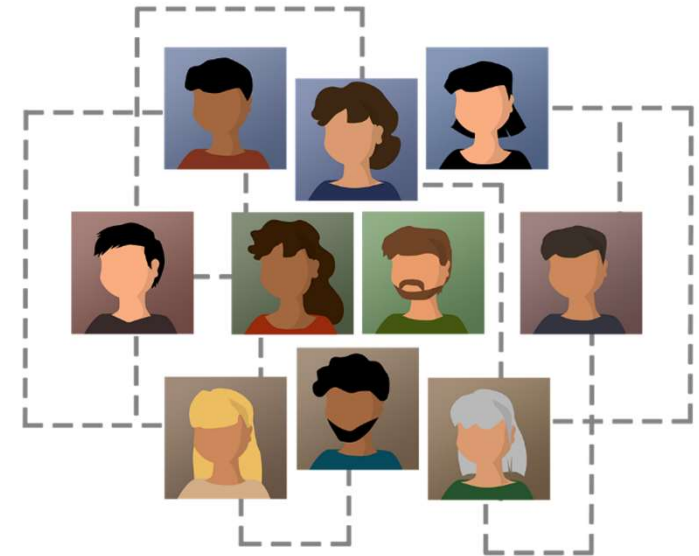
## FAMILY OFFICE & FAMILY ASSET MANAGEMENT GROWTH

- This is the concept of family office management in economic wise
- Most families have the potential to accumulate such wealth.
- This does not consider the leverage, which can be provided by the financial institutions, however, with those liquidities the performance would grow much faster and larger.
- On the other hand, however, for a family to secure such a sharp and high growth, several conditions may be taken into considerations.



# FAMILY OFFICE & FAMILY ASSET MANAGEMENT GROWTH

- As family grows, the human resources should be needed, and such skilled family members' pool needs to be created with the at most priority.
- Not only family members but also non-family members must be considered for a family to develop a talented resource pool.
- In Japan, there is a system called Banto, who is the trusted non-family member and has spent much time with the family members as their business grows.



# FAMILY OFFICE & FAMILY ASSET MANAGEMENT GROWTH

- With that rich and diverse talent pool,
- a family can
  1. diversify their portfolio,
  2. transit from a family business to business family, the former is focused on a business operation while the latter is focused on the family wealth management.

With the proper and proactive involvement of those consultants into the businesses-family asset management-,

those family owners, who recently inherited the property,

would have had the perfect performance from the very beginning.



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# 5 CHALLENGES





# CHALLENGES EDUCATION OF NEXT GENERATION

- Family does not recognize how important it is to educate family members, not only as-is owners (parents' generation) but also future owners (siblings and non-family members .)
- For this kind of issue, the consultants have been providing supports with the success cases of the family handing over.
- In those cases, parents have well managed the assets' handing over to the next generation so that the next generations can get prepared to their early stage of business owner career.





## CHALLENGES –COST EFFICIENCY–

- Most family are interested in having professional advice
- They are reluctant even initial discussion simply because they believe that such a service must be costly.
- They are also afraid of having less benefit than they expect.
- Consultancy service must be a sort of qualitative analysis which clearly includes valuation exercises.



# FAMILY OFFICE & FAMILY ASSET MANAGEMENT CHALLENGES –COST EFFICIENCY–

- With this simulation,
- the owner may be able to decide they should appoint this external professional.
- He should take some action in terms of their asset management
- He may have to some knowledge

Therefore, consultants can approach to those owners with learning materials, case studies or minimum educational programs



## FAMILY OFFICE & FAMILY ASSET MANAGEMENT CHALLENGES -OBSTACLES IN BUSINESS AND ASSET SUCCESSION-

- Who to approach?
- The as-is decision maker, who is the business and family leader
- Younger generations
- Miscommunication between two generations: parents and children has been an issue.
- Consultants usually pay attention to the current leaders as they pay the fee to the consultants
- The care for the younger generations helps to create a good strategy to the wealth building over generations.



## FAMILY OFFICE & FAMILY ASSET MANAGEMENT CHALLENGES -OBSTACLES IN BUSINESS AND ASSET SUCCESSION-

- Generation Z, are good at using IT platforms and advanced technologies
- business administration
- investment
- asset management.
- Involve younger generation in the family business and asset management from the very beginning.
- They are open to the global and social topics like sustainability, SDGs, and benefits to the local community,
- Get good insights by bringing findings from younger generations.



## FAMILY OFFICE & FAMILY ASSET MANAGEMENT CHALLENGES -OBSTACLES IN BUSINESS AND ASSET SUCCESSION-

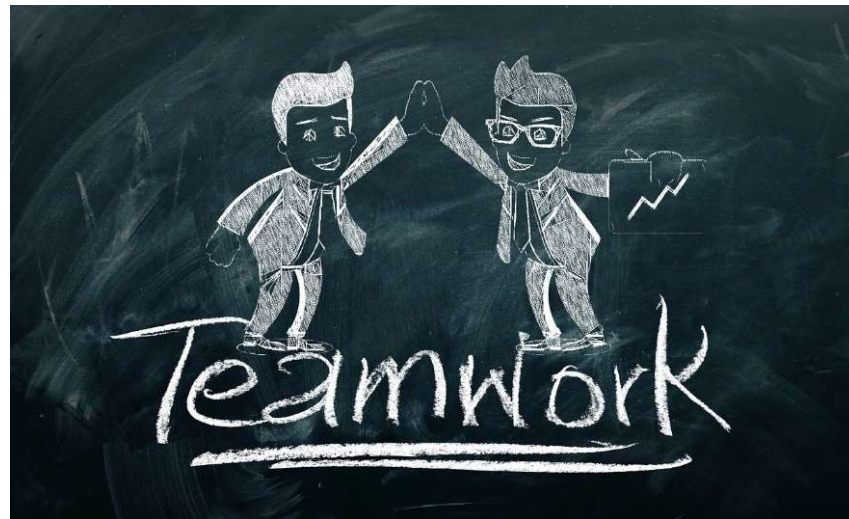
- Make value increase visible
- the new improvements in one month and that starts generating cash, the owner can immediately realize the value increase.
- Most of real estate projects take some time at least several years.
- The whole process took more than three years.
- Value increase is hard to understand
- Owners may be skeptical for the value- add strategies.
- Separation between the brokerage services and the appraisal services.





# FAMILY OFFICE & FAMILY ASSET MANAGEMENT CHALLENGES -OBSTACLES IN BUSINESS AND ASSET SUCCESSION-

- Collaboration Broker and Appraiser
- Laws and regulations on how to communicate valuation opinion
- Not to mislead the users
- Appraiser can provide valuation
- Broker must state this is the simulation, under the assumptions
- Collaboration may help owners to decide what is the best strategy for his assets and asset portfolio.



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## 6 CONCLUSIONS





## CONCLUSIONS

- The increasing number of abandoned houses without any resident has become a social, economic, and cultural issue in our society.
- One of the reasons which cause this issue is the poor use of professional consultant in terms of the management of the family business and asset.
- By demonstrating the benefit of those advice with qualitative analysis, property owners and owner family will be able to understand how helpful it is to implementing strategies advised by experts.
- The appropriate pricing of those services, proper marketing and the collaboration of brokers and appraisers may work in providing solutions for those issues.



## THE ADVISOR BACKGROUND

- Yuko Tomizuka, MAI, MRICS, MBA, Certified Appraiser in Japan
- Managing Director, ABRILS, Co.Ltd, a global real estate investment advisory <http://abrils.opal.ne.jp/>
- Asia Commercial Property Professional Group Board, MRICS. Strong career in Valuation, Research and Consulting.
- Joined Bear Sterns (2007) to deal with CMBS transactions, then German real estate banks: Eurohypo (2007–2009), WestLB Group (2009–2013) to act as an internal consultant. Her strength covers various commercial asset classes including hotels and shopping malls, and she also has wide network in Europe, Asia, South and North America.
- Since 2013, based on Okinawa, to support Petrobras and resort hotel investments.
- Language: Japanese, English, Italian, Portuguese



## Q & A



Thank you for your attention!

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