

## Summary of real estate appraisal system in Japan

March 31, 2008

### Introduction

Ministry of Land, Infrastructure, Transport and Tourism announced “Guidelines for Appraising Overseas Investment Real Estate” on January 25, 2008 as a policy to appraise properties overseas by real estate appraiser in Japan.

As an example of Japanese real estate investment trust (hereinafter referred to as “J-REIT”), “appraisal by real estate appraisers” is required by law (Refer to III.1) if properties are eligible to be the product, but “appraisal by real estate appraisers” in this case is understood as “appraisal by Japanese real estate appraisers”. This applies to properties overseas, but standard appraisal procedures for properties overseas had not been established. With this situation, the guideline was drawn up.

In this guideline, what is most important is “collaborative and joint work with appraisal for Japanese real estate appraisers and local real estate appraiser”. In order that it is conducted appropriately, it is important that appraisal for Japanese real estate appraisers understand real estate appraisal system overseas while those overseas understand real estate appraisal system in Japan”.

The summary of following items is explained in order that mainly real estate appraisers overseas understand Japanese real estate appraisal system.

- I. Law on Real Estate Appraisal and Japan’s Real Estate Appraisal Standard, etc.
- II. System to conduct real estate appraisal
- III. Securitization of real estate and real estate appraisal
- IV. Real estate for overseas investment and real estate appraisal

### **I. Law on Real Estate Appraisal and Japan’s Real Estate Appraisal Standard, etc.**

Appraisal for Japanese real estate appraisers is a national license, and those other than real estate appraisers are not allowed to conduct appraisal by law. For this reason, summary of Law on Real Estate Appraisal and Japan’s Real Estate Appraisal Standard, etc. is defined as follows.

## 1. Law

As a law on real estate appraisal, there is a “Law on Real Estate Appraisal (July 16, 1963 law Number 152, final revision is March 31, 2006 law Number 10) (hereinafter referred to as “appraisal law”), and its main details are as follows (Refer to Appendix 1).

### (1) Licensed Real Estate Appraiser

As a license to conduct real estate appraisal, there is a license system of real estate appraiser, and those who have passed in the real estate appraisal examination and completed training are qualified to be a Japanese real estate appraisers (the only profession that is licensed and registered by the government by law.) in the Ministry of Land, Infrastructure, Transport and Tourism.

### (2) Real Estate Appraisal Companies

A real estate appraisal company is a business entity to conduct real estate appraisal to meet the demand of clients by obtaining remuneration, and it can be conducted either by him or herself or by assigning people. Those who set up offices in more than two prefectures register in the registration list of real estate companies in the Ministry of Land, Infrastructure, Transport and Tourism while others register in the list in the prefecture, and are allowed to conduct the business.

### (3) Assignment of real estate appraiser, etc.

Real Estate Appraisal Companies are required to assign an appraiser exclusively for the office, and those who are not appraisers are not allowed to conduct the appraisal.

### (4) Confidentiality

Real estate appraiser and real estate appraisal companies are prohibited to disclose secret that had been obtained in the course of business without due reason, and the same shall apply after he or she closed the real estate appraisal companies or stopped being an appraiser.

### (5) Appraisal report

Those who conduct real estate appraisal business issue an appraisal report, and an appraiser related thereto must seal its signs in it.

## (6) Punishment

The Minister of Land, Infrastructure, Transport and Tourism is allowed to prohibit conducting business or delete registration, etc. by defining period for appraisers who conducted appraisal, etc. illegally.

The Minister of Land, Infrastructure, Transport and Tourism or governor of prefecture is allowed to admonish the appraisers if registered real estate appraisers violate punishment, and stop the business or delete registration by defining period.

## 2. Real Estate Appraisal Standards, etc.

Real estate appraisal standards, etc. is as follows.

### (1) Japan's Real Estate Appraisal Standards

Japan's Real Estate Appraisal Standards (all was revised on July 3, 2002, part was revised on April 2, 2007 and it was notified to vice minister of Ministry of Land, Infrastructure, Transport and Tourism) is a unified standard as well as has been used as judgment for punishment of appraiser, and it was established in 1964 when the appraisal law was established. It has been revised several times before today (Refer to Appendix 2).

### (2) Note to Japan's Real Estate Appraisal Standard

The Note to Japan's Real Estate Standard (all was revised on July 3, 2002, part was revised on April 2, 2007 and it was notified to vice minister of Ministry of Land, Infrastructure, Transport and Tourism) is equivalent to carrying out general theory and practical theory of real estate appraisal standard, and it defines the most important points (Refer to Appendix 3).

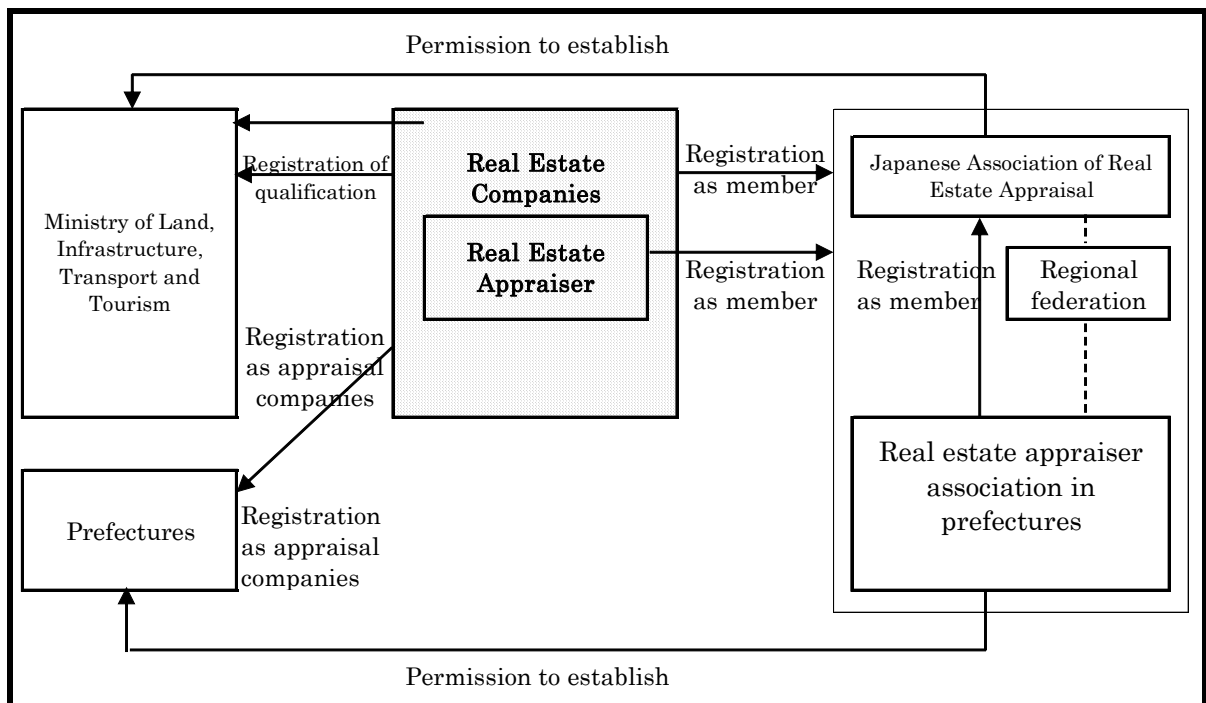
### (3) Guideline for Appraising Overseas Investment Real Estate

The Guideline for Appraising Overseas Investment Real Estate (January 25, 2008 notified to vice minister of Land, Infrastructure, Transport and Tourism) defines a standard procedures for overseas real estate by Japanese real estate appraiser when J-REIT and private fund, etc. in accordance with Japanese law invest in overseas real estate.

This guideline is treated on the same level as real estate appraisal standard in above 2. (1) (Refer to Appendix 4)

## II. System to conduct real estate appraisal

The relationship between real estate appraisers, real estate companies (those actually conducting appraisal) and Japanese Association of Real Estate Appraisal, Ministry of Land, Infrastructure, Transport and Tourism or prefecture (those supervising these conducting people) is as follows. The summary of real estate appraiser, those who conduct appraisal business and appraisal association is also described below.



### 1. Real estate appraiser and Real estate appraisal companies

The number of those who conducted real estate appraisal between January 1, 2006 and December 31, 2006 is listed in the table below. Only few of them conduct appraisal by setting up offices in more than two prefectures where several appraisers are employed whereas most of them are self-employers who he or herself is an appraiser in a prefecture.

Classification	Number of appraisal	Number of appraisal office	Number of appraiser in real
Registration at minister	100 (3.1%)	295 (8.5%)	1,074 (20.8%)
Registration at governor	3,168 (96.9%)	3,187 (91.5%)	4,101 (79.2%)
Total	3,268	3,482	5,175

(※)The number of appraiser includes appraiser candidate by old system.

(Surveyed by Ministry of Land,  
Infrastructure, Transport and Tourism as of  
January 1, 2007)

## 2. Japanese Association of Real Estate Appraisal (hereinafter referred to as “JAREA”)

Regarding JAREA, there are JAREA, a nationwide organization and Association of Real Estate Appraisers, an organization by prefecture. Most of the appraisers and real estate appraisal companies are members of both associations at their discretion. There is also a regional federation, which is a regional organization of real estate appraiser’s association.

### (1) Japanese Association of Real Estate Appraisal

JAREA is a corporation established by admission of Ministry of Construction (currently Ministry of Land, Infrastructure, Transport and Tourism) when the system of appraisal was established, and total number of member as of the end of January 2008 is 5,955.

Its main business is drawing up practical policy, etc., research of appraisal theory and survey of land price, etc. in accordance with real estate appraisal standard, etc. In addition, it is a sole training institute defined in appraisal law.

### (2) Association of Real Estate Appraisers

Association of Real Estate Appraisers is established in almost all the prefectures, and most of them are corporations established by admission of each prefecture. The details of business are almost the same as JAREA.

### **III. Securitization of real estate and real estate appraisal**

Real estate investment market in Japan has been developed drastically as a result of expansion of real estate securitization such as J-REIT and private fund, etc. in the past few years. Real estate appraisal has been used many times in securitization of real estate, and both are closely related.

The relationship between summary of securitization of real estate in Japan and real estate appraisal is described as follows.

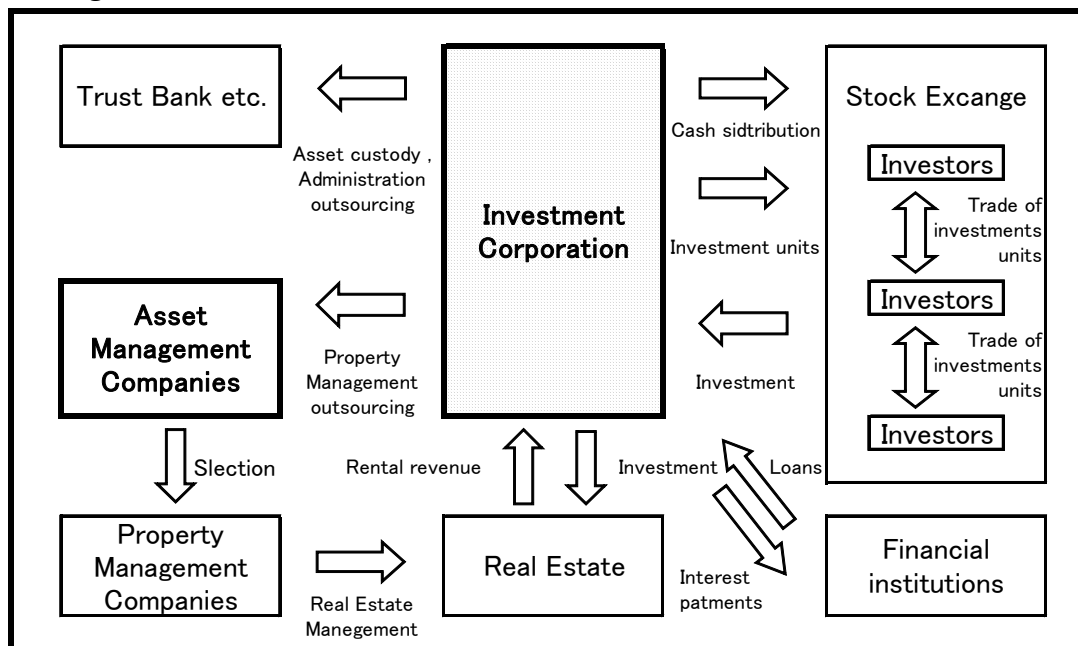
#### **1. Summary for securitization of real estate**

The securitization of real estate in Japan is mainly classified as follows.

- ( i ) ”J-REIT” in accordance with “Act Investment Trust and Invest Corporation (Low No.198of 1951)”
- ( ii ) ”Special Purpose Company (TMK : Tokutei Mokuteki Kaisya)” in accordance with “Act on Liquidation of Asset (Low No.105 of 1998) ”
- ( iii ) Business where securitization scheme is defined by law such as “real estate special joint venture” in accordance with “Real Estate Special Joint Venture Law”
- ( iv ) Business where securitization scheme is not defined by law such as limited liability company in “Corporation Law” and “TK (Tokumei Kumiai)-GK (Goudou Kaisya)”, in which anonymous association investment in Commercial Law, are combined.

For reference, basic system of “J-REIT” is as follows. Asset management company entrusted by investment corporation mainly invests money, which investor invested in vehicle, an investment corporation, to manage as investment for real estate. Currently 42 corporations are listed in Tokyo Stock Exchange, etc.

## <Organizational Structure of J-REIT >



## 2. Relationship between securitization of real estate and real estate appraisal

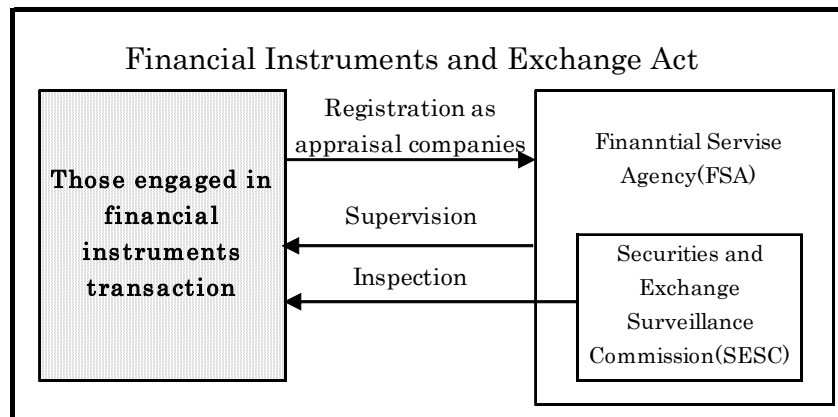
Among those involved in securitization of real estate, the one who mainly requests appraisal of real estate is an asset management company in the Figure in above 1, but the appraisal is required many times as follows.

### (1) Required by law

Among above scheme, in ( i ) "Act Investment Trust and Invest Corporation" and ( ii )"Act on Liquidation of Asset", real estate appraisal is required if the asset such as J-REIT, etc. controlled by these laws is real estate.

### (2) Required in management but not by law

Other than (1), it is not required by law. However, in practice of securitization, real estate appraisal is conducted many times, and also asset Management Company is required to register as financial transaction company in accordance with "Financial Instruments and Exchange Act" revised in 2007. In addition, it is inspected by monitoring committee such as securities exchange, etc. in Financial Services Agency, and it is important in supervision and inspection. Therefore, real estate appraisal has been required many times in its management.



#### IV. Overseas real estate for investment purposes and real estate appraisal

As is explained in guideline of overseas real estate for investment purposes, inclusion of investment overseas by J-REIT has not been prohibited by law. However, it had been prohibited by regulation of listing such as Tokyo Stock Exchange, and it had not been eligible to be the product..

With drawing up of the guideline, Tokyo Stock Exchange started to accept opinion regarding change of the regulation of listing on February 28, 2008, and overseas properties are likely to be listed by J-REIT around May 2008.

Under this kind of situation, real estate appraisal by collaboration and joint work between Japanese real estate appraisers and overseas real estate appraisers are expected to be started step by step.



## **【Appendix 1】 Law Regarding Real Estate Appraisal (Extract)**

Chapter 1 : General rule (Article 1 and 2)

Chapter 2 : Real estate appraiser

Section 1 : General rule (Article 3-7)

Section 2 : Real estate appraiser's examination (Article 8 -14)

Section 3 : Training (Article 14-2-23)

Section 4 : Registration (Article 15 -21)

Chapter 3 : Real estate companies

Section 1 : Registration (Article 22-34)

Section 2 : Duty (Article 35 to 39)

Chapter 4 : Supervision (Article 40-46)

Chapter 5 : Miscellaneous rule (Article 47-55)

Chapter 6 : Punishment (Article 56-61)

Supplementary provision

## **【Appendix 2】 Japan's Real Estate Appraisal Standard (Extract)**

### **<General theory>**

Chapter 1 : Basic idea regarding real estate appraisal

Section 1 : Real estate and its value

Section 2 : Real estate and characteristics of its value

Section 3 : Appraisal of real estate

Section 4 : Responsibility of real estate appraiser

Chapter 2 : Type and Kind of Real Estate

Section 1 : Type of real estate

I : Type of area

II : Type of land

Section 2 : Kind of real estate

I : Residential property

II : Building and its site

Chapter 3 : Factor Determining Real Estate Value

Section 1 : General Factor

I : Natural factor

II : Social Factor

III : Economic factor

IV : Administrative factor

Section 2 : Regional factor

I : Residential area

II : Agricultural area

III : Forest area

Section 3 : Specific factor

I : Specific factor regarding land

II : Specific factor regarding building

III : Specific and economic factor regarding building and its site

Chapter 4 : Principles Regarding Real Estate Value

I : Principle of demand and supply

II : Principle for principle of change

III : Principle of substitution

IV : Principle of highest and best use

V : Principle of balance

VI : Principle for increase and decrease of profit

VII : Principe of profit distribution

VIII : Principe of contribution

IX : Principe of application

X : Principe of competition

XI : Principe of prediction

Chapter 5 : Basic Subject of Appraisal

Section 1 : Determination of subject property

I : Condition for determining subject property

II : Condition for determining regional and specific factor

Section 2 : Determination for date of value

Section 3 : Determination of value and kind of rent obtained by appraisal

I : Value

II : Rent

Chapter 6 : Regional and Specific Analysis

Section 1 : Regional analysis

I : Significance of regional analysis

II : Application of regional analysis

Section 2 : Specific analysis

I : Significance of specific analysis

II : Application of specific analysis

Chapter 7 : Appraisal Method

Section 1 : Appraisal method to obtain price

I : Important point in general to obtain indicated value

II : Cost approach

III : Sales comparison approach

IV : Income capitalization approach

Section 2 : Appraisal method to obtain rent

I : Important point in general to obtain rent

II : Appraisal method to obtain new rent

III : Appraisal method to obtain rent under renewed lease

Chapter 8 : Process of appraisal

Section 1 : Determination for basic subject of appraisal

Section 2 : Drawing up disposal plan

Section 3 : Confirmation of subject property

I : Confirmation of subject property

II : Confirmation for details of right

- Section 4 : Collection and preparation of document
  - I : Confirmation document
  - II : Factor document
  - III : Comparison document
- Section 5 : Evaluation of document and analysis of value determining factor
- Section 6 : Application of appraisal method
- Section 7 : Reconciliation of indicated value or indicated rent
  - I : Reconsideration of each indicated value or indicated rent
  - II : Judgment related to persuasion that each indicated value or indicated rent possesses
- Section 8 : Determination of appraisal value
- Section 9 : Drawing up appraisal report
- Chapter 9 : Appraisal Report
  - Section 1 : Policy for drawing up appraisal report
  - Section 2 : Subjects listed
    - I : Appraisal value and type of price or rent
    - II : Condition of appraisal
    - III : Location, class and number of land, house number, structure, use purpose, volume, etc. as well as type of right related to subject property
    - IV : Relationship between request purpose of appraisal as well as condition and price or type of rent
    - V : Date of value and date of appraisal
    - VI : Summary of reason in determining appraisal value
    - VII : Treatment of unclear item in appraisal and scope of survey
    - VIII : Interest related to subject property of appraiser in relation to appraisal of the property, or relation with those who are related in respect with subject property or existence or non existence of special relation and its details
    - IX : Name of appraiser related to appraisal of the property
  - Section 3 : Appendix

### **<Practical Theory>**

- Chapter 1 : Appraisal Related to Value
  - Section 1 : Land

- I : Residential property
  - II : Agricultural property
  - III : Forest property
  - IV : Building sites with an interim use
- Section 2 : Building and its site
- I : Building for owner and its site
  - II : Rented house and its site
  - III : Building on leased land
  - IV : Sectional ownership building and its site
- Section 3 : Building
- I : Appraisal of building solely when building and its site are marketable by its unification
  - II : Appraisal of building solely when building and its site are not marketable by its unification
- Chapter 2 : Appraisal in respect with Rent
- Section 1 : Residential property
- I : In case of obtaining new rent
  - II : In case of obtaining rent under renewed lease
- Section 2 : Building and its site
- I : In case of obtaining new rent
  - II : In case of obtaining rent under renewed lease
- Chapter 3 : Appraisal in respect with Securitizable Subject Property
- Section 1 : Basic attitude of appraisal for securitizable subject property
- I : Scope of securitizable subject property
  - II : Responsibility of real estate appraiser
- Section 2 : Drawing up disposal plan
- I : Confirming item in drawing up disposal plan
  - II : Recording confirmation item
  - III : Request purpose of appraisal as well as relationship with those related to securitization
- Section 3 : Inspection. of specific factor of securitizable subject property, etc.
- I : Inspection of specific factor of subject property, etc.
  - II : Inspection
  - III : Treatment of engineering report and inspection conducted by real estate appraiser

Section 4 : Application of DCF, etc.

I : Clarification of application process of DCF, etc.

II : Unification of profit expense item of DCF, etc.

Supplementary provision

### **【Appendix 3】 Note to Japan’s Real Estate Appraisal Standard (Extract)**

- I “General theory Chapter 2 : Type and kind of real estate”
  - II “General theory Chapter 3 : Factor determining real estate price”
    - 1. Specific factor for land
    - 2. Specific factor for building
    - 3. Specific factor for building and its site
  - III “General theory Chapter 5 : Basic item of appraisal”
    - 1. Determination of subject property
    - 2. Determination of date of value
    - 3. Determination of price obtained by appraisal
  - IV “General theory Chapter 6 : Regional analysis and specific analysis”
    - 1. Application of regional analysis
    - 2. Application of specific analysis
  - V “General theory Chapter 7 : Appraisal Method”
    - 1. Appraisal method to obtain price
    - 2. Appraisal method to obtain rent
  - VI “General theory Chapter 8 : Process of Appraisal”
  - VII “Practical theory Chapter 1 : Appraisal for Price”
    - 1. Residential property
    - 2. Building and its site
  - VIII “Practical theory Chapter 2 : Appraisal for Rent”
    - 1. Residential property
    - 2. Building and its site
  - IX “Practical theory Chapter 3 : Appraisal for Price of Securitizable Subject Property”
- Supplementary provision

## **【Appendix 4】 Guidelines for Appraising Overseas Investment Real Estate**

### **Guideline Objectives**

These guidelines specify standard appraisal procedures for Japanese real estate appraisers (the only profession that is licensed and registered by the government by law. Hereinafter “Japanese Appraisers”) to appraise overseas real estate for investment purposes.

As the globalization of the real estate market progresses, cross-border real estate investment is gaining momentum. In addition, real estate investment trust (REIT) markets have been set up in the past few years, and international competition in real estate markets is heightening rapidly.

In Japan’s domestic market, there are no regulations that prohibit Japanese REITs (J-REITs) from acquiring overseas properties. The Tokyo Stock Exchange, however, has established criteria for J-REIT listing that prohibits the acquisition of overseas properties. This prohibition is said to be partly due to the lack of standards for overseas property valuation for Japanese Appraisers.

Further, the domestic real estate industry is actively looking into investing in overseas real estate assets from the perspective of diversifying the risks of portfolios concentrated in domestic real estate investment. The establishment of appropriate guidelines for appraising overseas properties is thus expected to promote the further healthy growth of real estate markets.

With the recent changes in the global real estate market stated above, these guidelines specify standards for Japanese Appraisers to perform appropriate collaborative or joint appraisals with overseas real estate appraisers, protecting the interests of investors and enhancing the reliability of appraisals.

Real estate investment trusts (REITs) were first established in the United States in 1960. In subsequent years, REITs spread to the Netherlands, Australia, and Asian nations, and they are now available in 18 economies.<sup>1</sup> Of the 17 economies besides Japan where REIT markets have been set up, the inclusion of overseas real estate in the investment assets of REITs is also prohibited in South Korea, Thailand, and

---

<sup>1</sup> United States, Israel, United Kingdom, the Netherlands, Australia, Canada, Singapore, Thailand, Taiwan, South Korea, Turkey, Germany, Japan, France, Bulgaria, Belgium, Hong Kong, and Malaysia.



Bulgaria. The remaining 14 economies permit investments in overseas real estate. While there are no legal regulations in Japan forbidding the inclusion of overseas real estate in the investment assets of J-REITs, the Tokyo Stock Exchange prohibits the listing of such investment trusts. Should it become possible for J-REITs to invest in overseas real estate, this can be expected to increase the attractiveness of the J-REIT market, as it makes it possible to diversify risks through exposure to overseas real estate markets that have diverse market trends. This will have the result of restraining the flow of funds out of the J-REIT market to overseas REIT markets, inviting the inflow of funds from foreign investors into the J-REIT market, and helping strengthen the international competitiveness of Japan's real estate market.

To contribute to the development of an environment for including overseas real estate in the investment assets of J-REITs, these guidelines specify standard appraisal procedures to be used by Japanese Appraisers in appraising overseas real estate in relation to private funds or domestic businesses acquiring overseas real estate or in relation to other investments in overseas real estate.

## **I. Basic Procedures for Appraising Overseas Properties**

A. When a Japanese Appraiser is to appraise overseas properties, he/she may

- travel to the country in which the property to be valued is located to perform a property appraisal on his/her own or
- perform a collaborative or joint appraisal with an overseas real estate appraiser (hereinafter "Overseas Appraiser").

It will be reasonable and practical to prepare an appraisal with an Overseas Appraiser as a supportive or collaborative staff that is familiar with the real estate market trends and social and economic conditions in the country in which the property is located.

B. In performing an appraisal, the Japanese Appraiser shall in principle complete an appraisal:

- through collaborative or joint work with an Overseas Appraiser who is certified or qualified as a specialist in the country in which the property is

located; and

- in accordance with locally authorized or officially recognized real estate appraisal standards.

C. A Japanese Appraiser must fully understand the basic information needed to appraise overseas real estate properties, such as local real estate market trends, legal and taxation systems, appraisal standards, and the qualification system for appraisers. In addition, the Japanese Appraiser must review the work of the Overseas Appraiser, examining whether or not the work is appropriately and reasonably performed and confirming that the results of the work are also appropriate.

In appraising real estate, the Japanese Appraiser or Overseas Appraiser must first collect and classify market data and then reach an expert decision based on rational analysis and judgment.

When Japanese Appraisers perform appraisals of overseas real estate, they will need to understand local market trends and social and economic conditions. It is rare, however, for Japanese Appraisers to be fully versed in the matters needed to appraise overseas real estate, and in many cases it will be reasonable to appraise overseas real estate through collaborative or joint work with Overseas Appraisers. Moreover, there may be practical problems, such as local laws and orders placing restrictions on appraisals by persons other than Overseas Appraisers. It should be noted that appraisals through collaborative or joint work with Overseas Appraisers could often be more realistic in terms of executing the appraisal work smoothly.

When performing collaborative or joint work with Overseas Appraisers, Japanese Appraisers must fully understand basic information of the overseas locality needed to appraise overseas real estate, such as local real estate market trends, legal and taxation systems and appraisal standards related to the real estate, and the qualification system for appraisers. Such an understanding is needed so that the Japanese Appraiser can understand the nature of the work and content of the report provided by the Overseas Appraiser, can perform an appropriate appraisal collaboratively or jointly with the Overseas Appraiser, and can take responsibility for the results of the appraisal.

## **II. Agreement on Basic Procedures for Appraising Overseas Real Estate**

In the appraisal of overseas real estate properties, the following basic appraisal procedures must be explained to the client and the client's written consent to them must be received.

1. Selection of an Overseas Appraiser according to Section III
2. Scope of work of the Japanese Appraiser and the Overseas Appraiser, and the allocation of responsibilities
3. Property inspections and other investigations into the attributes and characteristics of the real estate to be appraised
4. Currency unit to be used to express the appraisal value of the property
5. Receipt of technical reports (if any) on the conditions of the buildings, facilities and environment of the property to be appraised (often called Engineering Report (hereinafter "ER"))

In appraising overseas real estate, due to the need for collaborative or joint work with an Overseas Appraiser or the considerable travel-related and other expenses compared to the appraisal of domestic real estate, it is important to discuss basic appraisal procedures with the client beforehand and to gain the client's consent. This consent should be received in writing to prevent disputes later.

In this process, it will be necessary to explain to the client such matters as the selection of the Overseas Appraiser, the nature of collaborative or joint work with the Overseas Appraiser, the allocation of responsibilities with the Overseas Appraiser, and property inspections, to determine an appraisal plan after gaining the understanding of the client.

Should the appraisal client prepare a ER or a ground contamination or other environmental survey, it will be necessary to confirm with the client whether an independent specialist has been retained to prepare such a report. Should such surveys be performed, the relevant survey reports must be obtained, analyzed, and judged, and used in the appraisal, as necessary.

### **III. Selection of Overseas Appraisers**

- A. Japanese Appraisers shall understand overseas appraisal standards and overseas appraiser organizations (meaning organizations that grant licenses or titles to real estate appraisers; hereinafter the same). Overseas Appraisers shall be selected for collaborative or joint appraisal work from among Overseas Appraisers who are certified or qualified as specialists in the country after the Japanese Appraiser confirms the following minimum requirements:
1. Professional qualifications of the Overseas Appraiser and the overseas appraiser organization with which the appraiser is affiliated
  2. Broad knowledge and practical experience of the Overseas Appraiser as a real estate appraiser; and
  3. No conflicts of interest in the transaction of the real estate to be appraised.
- B. The Overseas Appraiser selected according to Subsection A may be a nonresident of the country in which the property is located, but should be familiar with social and economic conditions concerning real estate appraisal in the country in which the property is located. The Overseas Appraiser shall be capable of performing appraisals in the country based on the grounds that he/she has practical experience in making appraisals in that country.
- C. The Overseas Appraiser must be selected by the Japanese Appraiser's office in order to smoothly perform collaborative or joint appraisal work. Should the client recommend a candidate to serve as the Overseas Appraiser, the Japanese Appraiser's office shall select the candidate only after determining that the candidate is appropriately qualified to perform the collaborative or joint work by confirming the candidate's resume, practical experience, professional qualifications as a real estate appraiser, and so forth.

The Overseas Appraiser appointed must be a real estate appraiser who is authorized or officially recognized as a specialist in the overseas locality. The local system for licensing and titling real estate appraisers must be managed by a national organization of the country. The organization must grant professional qualifications and titles based on knowledge and experience, and have rules to suspend or revoke the professional qualifications of real estate appraisers that are involved in fraudulent or improper appraisals.

It would be appropriate to select a person with skills similar to persons licensed under Japan's real estate appraiser system, such as those licensed under the US, UK, and Australian systems, or to appoint a person with professional qualifications and title granted under a system with legal or social standing.

Moreover, the selection of an Overseas Appraiser should not be decided merely based on affiliation with a certain real estate appraiser organization or real estate appraiser's office. Rather, such matters as the candidate's resume, appraisal experience, professional qualifications, and reputation should be examined, and the person determined to have the capacity to carry out the collaborative or joint appraisal work should be selected.

A comparison of economies that have a real estate appraiser system is provided below in a separate table.

#### **IV. Property Inspections and Survey of Market Trends and Legal Restrictions**

##### **A. Property Inspections**

The property to be appraised must be identified through a property inspection that includes an internal inspection of the buildings.

However, in case that a property were to be reappraised by the same Japanese Appraiser who has done the property inspections before and if it were recognized that there were no relevant legal, physical, economic and other factors' changes on the subject property nor in the neighboring area, the inspections of the subject property may be admitted through an inspection report submitted by the Local Appraiser.

##### **B. Survey of local real estate market trends and legal restrictions on the property**

The Japanese Appraiser must have a thorough understanding of overseas real estate market trends, legal and taxation systems on the property, and appraisal standards, before performing property inspections or when visiting the foreign locality, through reports or information supplied by the Overseas Appraiser.

In evaluating market trends and legal restrictions, the Japanese Appraiser must bear in mind that the appraisal report or its summary can be disclosed to investors. It is necessary to obtain a sufficient amount of information, including a macroeconomic analysis of local markets and social, economic, and

administrative factors affecting the property value, such as standard contract conditions, land title system and other practices in real estate markets. The Japanese Appraiser shall collect and analyze information regarding the property. The appraisal report or the appraisal review report must contain sufficient information analysis.

C. Other surveys of the property for valuation

If an ER is issued or a ground contamination survey or other examination is conducted, the Japanese Appraiser must obtain these reports and incorporate that information in the appraisal if necessary.

Property inspections, including internal inspections of the buildings, to confirm whether the relevant property exists as reported is a basic component of real estate appraisal, whether the real estate is located in Japan or overseas. Even when carrying out collaborative or joint work with an Overseas Appraiser, the Japanese Appraiser appraising the real estate should in principle travel to the country and accurately assess the relevant property through property inspections, hearings, and the confirmation of public documents.

In appraising overseas investment real estate, the Japanese Appraiser must bear in mind that the appraisal document will be disclosed to investors, and it will be necessary to collect, analyze, and report a sufficient amount of information that is also thought to be important for investors, including local real estate market trends and a macroeconomic analysis of such factors as the economic growth, inflation, and demographic changes. It is more important to do so for overseas properties than for domestic ones.

Accordingly, in performing collaborative or joint work with an Overseas Appraiser, it will be desirable for the Japanese Appraiser to request the Overseas Appraiser to collect such necessary materials in advance.

The need for compiling an Engineering Report or drafting ground contamination or other condition surveys will differ in accordance with local market practices. When such surveys of the conditions are the general practice in the foreign locality (when such surveys of the conditions are performed for the majority of investment real estate transactions or when such surveys of the conditions are performed for the majority of foreign investments even though they are rare for domestic transactions in the foreign locality), the Japanese Appraiser must obtain these reports, examine

them, and incorporate that information in the appraisal.

## **V. Collaborative or Joint Work with an Overseas Appraiser**

### **A. Collaborative or Joint Work Procedures**

The Japanese Appraiser shall work collaboratively or jointly with an Overseas Appraiser based on an appropriate allocation of responsibilities. Basically, either of the following two methods may be applied.

1. The Japanese Appraiser requests the Overseas Appraiser to collect and provide basic materials and other support considered to be necessary to complete the appraisal (hereinafter, "Overseas Appraisal Support Work"), and the Japanese Appraiser performs the appraisal by using the services of Overseas Appraisal Support Work (hereinafter, "Overseas Appraisal Support Method").
2. The Japanese Appraiser requests the Overseas Appraiser to prepare an appraisal report and performs the appraisal by reviewing the overseas appraiser's report (hereinafter, "Overseas Report Review Method").

### **B. Promotion of Collaborative or Joint Work**

The Japanese Appraiser and the Overseas Appraiser shall smoothly and steadily perform collaborative or joint work through close discussions and coordination at each phase in the appraisal process by means of meetings in person, telephone conversations, and communication via the Internet. Thus, the Japanese Appraiser's office shall conclude a written contract with the overseas real estate appraisal office to which the Overseas Appraiser is affiliated. The contract should contain appropriate procedures for collaborative or joint work between the Japanese Appraiser and the Overseas Appraiser.

The Japanese Appraiser shall perform the appraisal by working collaboratively or jointly with an Overseas Appraiser based on a suitable allocation of responsibilities and on close collaboration. Two approaches are possible.

#### **1. Overseas Appraisal Support Method**

The Japanese Appraiser shall receive from the Overseas Appraiser basic materials

on such matters as transactions in the local market in the past and market trends (hereinafter, “Local Basic Materials”) that will be needed in performing the appraisal. The Japanese Appraiser shall work to understand and analyze such Local Basic Materials and shall perform the appraisal by receiving advice, research assistance, and other support related to appraisal work from the Overseas Appraiser.

## 2. Overseas Report Review Method

The Japanese Appraiser shall work to understand and analyze the Local Basic Materials that will be needed in performing the appraisal, such as the appraisal procedures of Overseas Appraisers, transactions in the local market in the past used in appraisal work, and market trends. The Japanese Appraiser shall then perform the appraisal by confirming the appropriateness of the judgment in the appraisal report of the Overseas Appraiser (hereinafter, “Overseas Appraisal Report”) and the appropriateness of the appraisal value.

Regardless of the method employed, the Japanese Appraiser’s office must conclude a written contract with the overseas real estate appraisal office beforehand to smoothly and steadily promote collaborative or joint work with the Overseas Appraiser. It should be borne in mind that in certain economies the Overseas Appraiser and the overseas real estate appraisal office will be the same entity.

When these methods are employed, responsibilities will be allocated among the Japanese Appraiser’s office, the Japanese Appraiser, and the Overseas Appraiser with respect to the client as outlined below. The contract with the overseas real estate appraisal office should include a clause indicating that the Japanese Appraiser and the client are included in the scope of users of Local Basic Materials and the Overseas Appraisal Report. The aim of this clause is to clarify in the contract the scope of civil responsibility regarding the appraisal work of the Overseas Appraiser. (See VI. below.)

	Overseas Appraisal Support Method	Overseas Report Review Method
Japanese Appraiser’s office	<ol style="list-style-type: none"> <li>1. Selection of the Overseas Appraiser</li> <li>2. Overall appraisal report (quality control)</li> </ol>	<ol style="list-style-type: none"> <li>1. Selection of the Overseas Appraiser</li> <li>2. Overall Appraisal Report (quality control)</li> </ol>
Japanese Appraiser	<ol style="list-style-type: none"> <li>1. Confirmation of Local Basic Materials</li> </ol>	<ol style="list-style-type: none"> <li>1. Review of the Overseas Appraisal Report</li> </ol>



	2. Overall appraisal report	2. Appraisal review report on the Overseas Appraisal Report 3. Translation into Japanese of the Overseas Appraisal Report
Overseas Appraiser	1. Local Basic Materials	1. Overseas Appraisal Report

## **VI. Contract Specifics for Collaborative or Joint Work**

### **A. Overseas Appraisal Support Method**

In applying the Overseas Appraisal Support Method, the contract shall include provisions on the following.

#### **1. Scope of contracted work**

- Specifics of Overseas Appraisal Support Work
- Discussion and coordination of the Overseas Appraisal Support Work (by means of meetings in person, telephone conversations, and communication via the Internet)
- Specifics of materials to be supplied at meetings

#### **2. Professional qualifications of the Overseas Appraiser**

- Professional qualifications of the Overseas Appraiser who performs the Overseas Appraisal Support Work

#### **3. Fees and expenses**

#### **4. Schedule**

- Details of the schedule for the collaborative or joint work, including dates of meetings, briefings on Local Basic Materials, and delivery of Local Basic Materials
- The deadline must be strictly observed

#### **5. Scope of responsibility of the Overseas Appraiser**

- Scope of the Overseas Appraiser's responsibility for users (the client and others) of the appraisal report prepared by the Japanese Appraiser (limited to portions incorporating the Overseas Appraisal Support Work)

6. Other provisions

- Confidentiality agreement and so forth

B. Overseas Report Review Method

In applying the Overseas Report Review Method, the contract shall include provisions on the following.

1. Scope of contracted work

- Specifics of the appraisal in accordance with the appropriate authoritative standard in the country in which the property is located
- Discussion and coordination for performing the appraisal (by means of meetings in person, telephone conversations, and communication via the Internet)
- Specifics of materials to be supplied at meetings

2. Professional qualifications of the Overseas Appraiser

- Professional qualifications of the Overseas Appraiser who performs the appraisal

3. Fees and expenses

4. Schedule

- Details of the schedule for the collaborative or joint work, including dates of meetings, briefings on the Overseas Appraisal Report, and delivery of the Overseas Appraisal Report
- The deadline must be strictly observed

5. Scope of responsibility of the Overseas Appraiser

- Scope of Overseas Appraiser's responsibility for users (the client and others) of the Overseas Appraisal Report

6. Other provisions

- Confidentiality agreement and so forth

Specific matters to be included in the contract for collaborative or joint work with the Overseas Appraiser may be as follows:

## A. Overseas Appraisal Support Method

### 1. Scope of contracted work

- Specifics of the Overseas Appraisal Support Work (such as gathering and providing Local Basic Materials and supporting the appraisal work of the Japanese Appraiser, including property inspections)
- Identification of the real estate to be appraised
- Recipient of Local Basic Materials (address and name) and number of copies to be sent
- Ethical (supervisory) rules for auditing specified by a real estate appraiser organization
- Method for holding meetings between the Overseas Appraiser and the Japanese Appraiser
- That work shall proceed by exchanging views through meetings and through telephone and Internet communication

### 2. Professional qualifications of the person in charge of Overseas Appraisal Support Work

- The person to perform the Overseas Appraisal Support Work must be a person with a license or title authorized or officially recognized for real estate appraisers in the foreign locality.

### 3. Fees and expenses

- The contract shall specify total fees and expenses related to the Overseas Appraisal Support Work and must include procedures for dealing with additional work or for changes in the report format and content.

### 4. Schedule

- Date for submitting the Local Basic Materials
- Dates for briefings on the Local Basic Materials
- Dates for meetings between the Overseas Appraiser and the Japanese Appraiser
- Strict observance of deadline

### 5. Scope of responsibility of the Overseas Appraiser

- The Overseas Appraiser shall be responsible for the use (use by the client and

others) of the appraisal report prepared by the Japanese Appraiser (limited to portions incorporating the Overseas Appraisal Support Work).

## 6. Other

- Obligation to maintain confidentiality
- Measures to be taken should a conflict of interest arise
- Obligation to work for resolution should a dispute arise over the contract

## B. Overseas Report Review Method

### 1. Scope of contracted work

- Specifics of collaborative or joint work to be performed by the Overseas Appraiser (such as preparing an Overseas Appraisal Report including property inspections)
- Identification of the real estate to be appraised
- Recipient of the Overseas Appraisal Report (address and name) and number of copies to be sent
- Real estate appraisal standards that will apply to the appraisal (three approaches to value should be used as much as possible and a supplementary clause should be included as necessary on the application of an appropriate appraisal method, such as the principle of highest and best use)
- Ethical (supervisory) rules for auditing specified by a real estate appraiser organization
- Method for holding meetings between the Overseas Appraiser and the Japanese Appraiser (specifics of meeting materials, such as detailed maps of the location of the real estate to be appraised and of the location of transactions offering market evidence and a regional geographical analysis for comparing cap rates and rents)
- That the Overseas Appraisal Report must be attached with a document certifying the title of the real estate to be appraised
- That work shall proceed by exchanging views through meetings and through telephone and Internet communication
- An additional clause may be included, such as request for preparation of an environmental survey report, including one on soil contamination.

### 2. Professional qualifications of the person in charge of overseas appraisal work

- The person to perform the appraisal must be a person with a license or title authorized or officially recognized for real estate appraisers in the foreign locality.

### 3. Fees and expenses

- The contract shall specify total fees and expenses related to the appraisal and must include procedures for dealing with additional work or for changes in the report format and content.

### 4. Schedule

- Date for submitting the Overseas Appraisal Report
- Dates for briefings on the Overseas Appraisal Report
- Dates for meetings between the Overseas Appraiser and the Japanese Appraiser
- Strict observance of deadline

### 5. Scope of responsibility of the Overseas Appraiser

- The Overseas Appraiser shall be responsible for the use (use by the client and others) of the Overseas Appraisal Report.

### 6. Other

- Obligation to maintain confidentiality
- Measures to be taken should a conflict of interest arise
- Obligation to work for resolution should a dispute arise over the contract

## **VII. Review and Supplementary Surveys**

### **A. Review of Local Basic Materials or Overseas Appraisal Report**

The Local Basic Materials or the Overseas Appraisal Report supplied by the Overseas Appraiser must be reviewed in order to confirm the soundness, relevance, appropriateness, and reasonableness of the work. This review process should at minimum include the following.

#### **1. Review of Local Basic Materials**

- Professional qualifications of the Overseas Appraiser, and his/her professional affiliations
- Date of preparation of the Local Basic Materials, and date of the data
- Physical condition of buildings and title related to the property to be appraised
- Assumptions of the Local Basic Materials
- Whether appropriate and sufficient data has failed to be supplied
- Data sources

#### **2. Review of Overseas Appraisal Report**

- Professional qualifications of the Overseas Appraiser, and his/her professional affiliations
- Date of preparation of the Overseas Appraisal Report and the effective date of the appraisal and the date of the report
- Physical condition of buildings and title related to the property to be appraised
- Assumptions in the Overseas Appraisal Report
- Whether appropriate and sufficient data has failed to be supplied
- Data sources
- Consistency of the appraisal method with the requirements of the authoritative standards in the country in which the property is located
- Sound analysis of price factors related to property value
- Preparation of another appraisal or an appraisal review by another Overseas Appraiser if necessary

### **B. Supplementary surveys**

In addition to the review of the Local Basic Materials or the Overseas Appraisal

Report, supplementary surveys shall be carried out when deemed necessary to perform a proper appraisal. In this case, the supplementary surveys shall be performed by the Japanese Appraiser or by another overseas expert or specialist in the country.

The Overseas Appraisal Report must be evaluated and reviewed as to whether the appraisal is appropriate with respect to real estate appraisal standards authorized or officially recognized in the foreign locality and as to whether it is reasonable and appropriate in terms of appraisal theory, such as whether price formation factors can be explained theoretically and empirically.

Some appraisal reviews performed by Japanese Appraisers merely confirm and explain appraisal procedures and bear no responsibility for numerical values. Such reviews fall short of what can be called review.

Following the review of the Overseas Appraisal Report, additional or supplementary surveys shall be performed when deemed necessary according to Japan's real estate appraisal standards (Notification of July 3, 2002, of the Vice Minister of Land, Infrastructure, and Transport; hereinafter, "Real Estate Appraisal Standards of Japan"). For example, environmental assessments, such as surveys of ground or asbestos contamination, may need to be performed.

## **VIII. Appraisal Value**

### **A. Overseas Appraisal Support Method**

The Japanese Appraiser shall work collaboratively or jointly with the Overseas Appraiser in accordance with Sections I through VII and determine the appraisal value.

The appraisal value shall in principle be expressed in the currency unit of the country in which the property is located.

### **B. Overseas Report Review Method**

The Japanese Appraiser shall work collaboratively or jointly with the Overseas Appraiser in accordance with Sections I through VII .If the Overseas Appraisal Report is judged to be appropriate, the Japanese Appraiser shall agree to the appraisal value. However, if the Overseas Appraisal Report is judged to be inappropriate, the Japanese Appraiser shall not agree to it, but shall determine

the final appraisal value and state the grounds for his/her judgment.

The appraisal value shall in principle be expressed in the currency unit of the country in which the property is located.

The Japanese Appraiser shall determine the appraisal value in the case of the Overseas Appraisal Support Method and agree to the appraisal value in the case of the Overseas Report Review Method. With either method, the Japanese Appraiser shall bear responsibility for the appraisal value in his capacity as a real estate appraiser.

With the Overseas Report Review Method, it will usually be the case that the Japanese Appraiser agrees with the Overseas Appraiser on the final appraisal value since the Japanese Appraiser is involved in the appraisal work, such as exchanging views with the Overseas Appraiser at each stage of appraisal work. However, if for any reason there is disagreement over the appraisal value, the Japanese Appraiser shall disclose his/her reasoning and determine the appraisal value.

The appraisal value shall in principle be stated in the local currency unit, although this will also be subject to the client's wishes. The Overseas Appraisal Report shall also state the amount in the legal currency of Japan (Japanese yen).

## **IX. Appraisal Document**

The appraisal report or the appraisal review report shall be prepared in writing by the Japanese Appraiser.

### **A. Overseas Appraisal Support Method**

In performing an appraisal using the Overseas Appraisal Support Method, the Japanese Appraiser shall prepare the appraisal report. The Local Basic Materials (original supplied by the Overseas Appraiser) shall be attached to the appraisal report.

### **B. Overseas Report Review Method**

In performing an appraisal using the Overseas Report Review Method, the Japanese Appraiser shall prepare the appraisal review report. The Japanese Appraiser shall also prepare an appropriate Japanese translation of the Overseas Appraisal Report.



The written appraisal document shall consist of the appraisal review report (including supplementary surveys, if any) and the Overseas Appraisal Report (original report). A Japanese translation of the Overseas Appraisal Report shall be attached to the appraisal document.

The Japanese Appraiser shall be responsible for preparing the appraisal report or the appraisal review report. These will constitute the appraisal document that the real estate company delivers to the client. In the case of the Overseas Report Review Method, the appraisal document shall consist of the appraisal review report and the original Overseas Appraisal Report, and a Japanese translation of the Overseas Appraisal Report shall be provided as an attachment. In this case, the scope of translation shall include at the very least all significant portions of the Overseas Appraisal Report, and other portions may be provided as a summary in accordance with the client's wishes. Should a discrepancy arise between the original text and the Japanese translation, the original shall take precedence. The contract with the Overseas Appraiser shall include a clause to this effect with the client's consent, and the translation or other documents shall also include a statement to this effect.

## **X. Content of Appraisal Document**

### **A. Report Content Policy**

The appraisal document shall include matters deemed necessary in accordance with Japanese Real Estate Appraisal Standards (established by the government in 1969) to the extent possible.

If certain matters deemed necessary according to Japanese Real Estate Appraisal Standards are not considered to be factors in real estate transactions and are usually ignored in appraisal reports in the country in which the property is located, these matters may be left unstated. The reasons for leaving these matters unstated, however, must be recorded.

### **B. Content**

The appraisal report or the appraisal review report shall include matters in Subsection 1 below since the Japanese Appraiser is performing the appraisal with an Overseas Appraiser. Furthermore, it shall include matters in Subsection 2 below since Japanese capital market investors and other parties

are usually unfamiliar with overseas real estate market trends.

1. Scope of work of the Japanese Appraiser and the Overseas Appraiser

The scope of work of the Japanese Appraiser and the Overseas Appraiser shall be respectively stated.

2. Information on the overseas real estate market

Since the appraisal document can be disclosed to investors, it shall include overall market analyses, information on real estate market practices and other social, economic, and administrative factors for property value in the country in which the property is located, in particular stating features that differ from those of Japan's real estate market.

a) Overseas real estate market trends

Basic real estate market trends of the regional real estate markets

b) Legal and taxation systems concerning real estate transactions

Title of the legal and taxation systems concerning real estate transactions

c) Other information

Differences in real estate market practices in the country in which the property is located

3. Content of review using the Overseas Report Review Method

The appraisal review report shall include the specifics of review of the Overseas Appraisal Report, stating the opinions, reasons and conclusions in accordance with Section VII.

4. Appraisal value

The appraisal value shall be stated in the currency unit of the country in which the property is located, and also stated in the currency of Japan (yen) converted by using the closing exchange rate on the effective date of the appraisal.

### C. Signature and seal

The appraisal report or the Overseas Appraisal Report shall be signed and sealed, respectively, by the Japanese Appraiser or the Overseas Appraiser.

The Japanese Appraiser shall be responsible for preparing the appraisal report or the appraisal review report that effectively constitutes the appraisal document delivered to the client. Should there be differences between the overseas real estate appraisal standards and the Real Estate Appraisal Standards of Japan with regard to the matters to be included in the report, the latter standards shall be followed to the extent possible.

However, if certain matters specified to be recorded in the Real Estate Appraisal Standards of Japan are not regarded as significant in the real estate market of the foreign locality and not commonly recorded in overseas appraisal documents, such matters may be omitted after recording the reasoning for the omission.

The appraisal value shall in principle be stated in the local currency unit, and the closing exchange rate on the effective date of the appraisal and the appraisal value translated into the legal currency of Japan (Japanese yen) using the same exchange rate shall also be recorded. Depending on the client's wishes, however, it shall also be acceptable to use an exchange rate other than the closing exchange rate on the effective date of the appraisal for translation into the legal currency of Japan or to use an average exchange rate for a specified period.

In the case of the Overseas Report Review Method, a signature and seal shall be affixed to the appraisal review report portion of the appraisal document, and no signature or seal need be affixed to the Overseas Appraisal Report or to its Japanese translation.

When a summary of the appraisal document is prepared in addition to the above, in the Japanese Appraiser and the Overseas Appraiser sometimes sign and seal the summary jointly. Notwithstanding this practice, the method for signing and sealing the summary of the appraisal document shall be based on agreement among the Japanese Appraiser, the client, and the Overseas Appraiser. Should the Overseas Appraiser customarily only sign and not affix seals to documents in the foreign locality, it will be sufficient for him/her to merely affix a signature.

## **XI. Notes**

Appraisals of overseas properties shall be performed in accordance with the Sections I through X. For performing appropriate appraisals by following these guidelines, the following requirements must be met in the country in which the property is located:

1. Property data, market information needed to perform the appraisal, price factor data for property value and any other information can be obtained.
2. A real estate appraiser who is affiliated to a professional organization that grants professional qualifications and provides guidance and education for its members can be selected.
3. Authorized or officially recognized real estate appraisal standards are maintained and disclosed as appropriate, and an overseas appraisal organization takes disciplinary actions (such as caution, suspension of title, revocation of title and so forth) in cases where its members fall seriously short of the standards expected of them.

Even in cases where Condition 2 and/or 3 above are not adequately met, the collaborative or joint work of real estate appraisal based on these guidelines may be performed with an Overseas Appraiser whose profession is qualified in other countries in which these conditions are satisfied.

If the requirements stated above are not satisfied, it is inappropriate to engage in overseas real estate appraisals and the client's request for such appraisal services should be declined.

A separate table lists economies with appraisal systems meeting Conditions 1, 2, and 3 above as evaluated by the Ministry of Land, Infrastructure and Transport to date.

Given that there may be economies not listed in the table that have adequate systems for real estate appraisal, the Ministry of Land, Infrastructure, Transport and Tourism will continue to evaluate and study foreign appraisal systems, bearing in mind demand trends for foreign real estate investment, and add those economies to the list that have similar levels of appraisal systems in place.

## **XII. Status and Application of These Guidelines**

These guidelines specify standards for Japanese Appraisers to perform appropriate collaborative or joint appraisals with Overseas Appraisers, protecting the interests of investors and enhancing the reliability of appraisals.

When Japanese private funds invest in overseas real estate or if J-REITs are allowed to include overseas real estate in the near future, the Japanese real estate market will be more integrated into the global real estate market. In particular, real estate appraisal by Japanese Appraisers is mandated for J-REITs in the Japanese regulations. Overseas property appraisals by Japanese Appraisers shall thus be regulated by the Real Estate Appraisal Law (Law No. 152 of 1963).

In this context, these guidelines shall have status equal to the Real Estate Appraisal Standards of Japan for overseas property appraisals. A misleading or fraudulent appraisal violating these guidelines shall be subject to disciplinary actions by the government.

A single real estate market will be created out of foreign and domestic properties if Japanese private funds invest in overseas real estate or if it becomes possible for J-REITs to invest in overseas real estate. In such cases, it will not be desirable if appraisal procedures or accuracy vary depending on whether the real estate to be appraised is located in Japan or overseas, since this could bring about disorder in the domestic real estate market.

Furthermore, given that appraisals by Japanese Appraisers are required for J-REITs under the Act Investment Trust and Invest Corporation (Law No. 198 of 1951) and the Act on Liquidation of Asset (Law No. 105 of 1998), such appraisals by Japanese Appraisers should be subject to guidance and supervision under the Law on Real Estate Appraisal.

Therefore, for appraisals in such situations, these guidelines shall be positioned to have the same significance as the Real Estate Appraisal Standards of Japan.