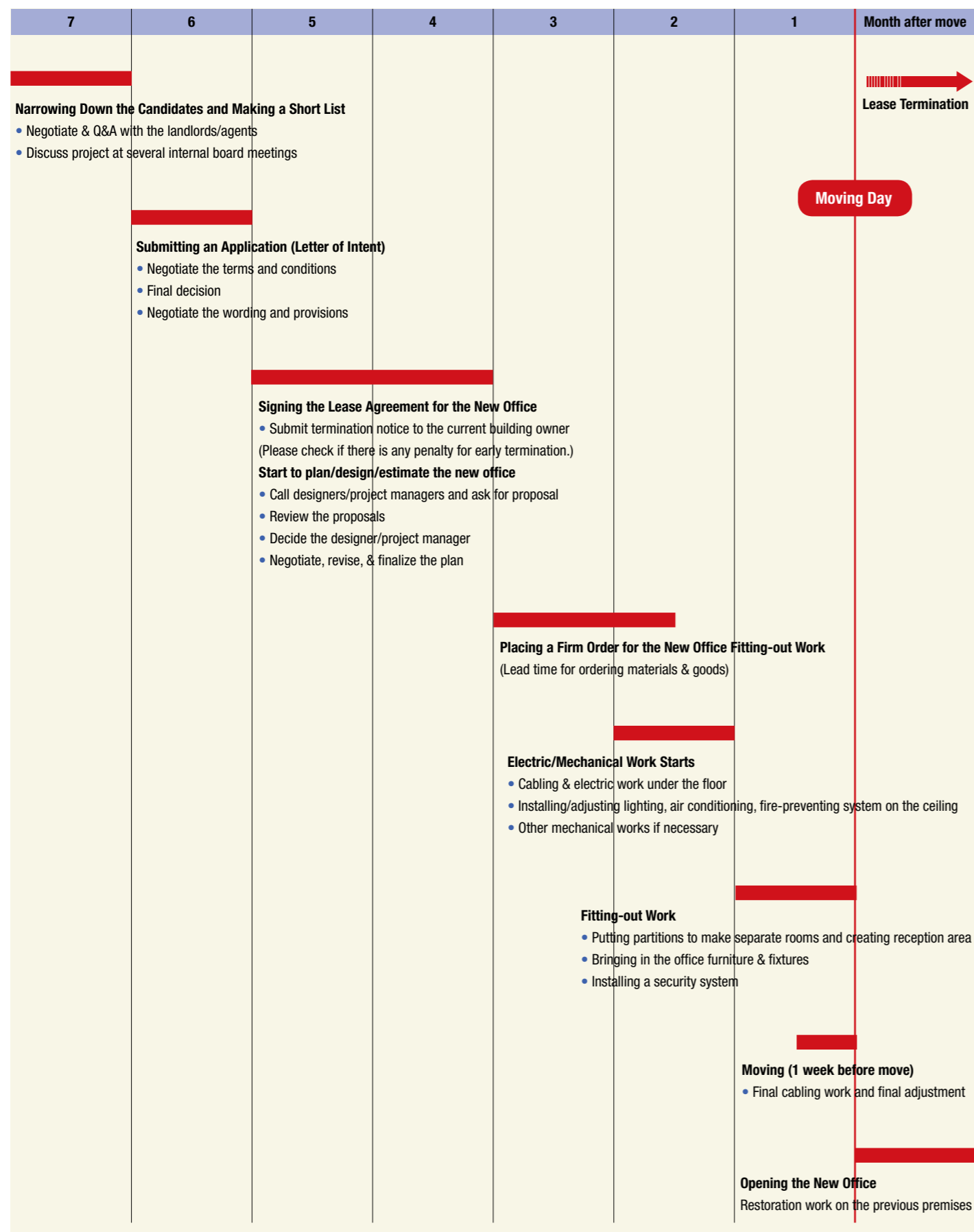


Here is the guideline to help you calculate the costs involved in fitting out their new office and moving in. This shows an example relocation of a 30 – 300 tsubo office.



The following are some of the terms unique to the Japanese office rental market that you may find useful to know.

1. Floor Area (Menseki)

Space in Japan is usually expressed in square meters (m²), but the term tsubo is also common (1 tsubo = 3.305785 sq m or about 35.58 sq feet). Floor space is usually measured from wall center to wall center. However, prospective lessees should be careful when comparing offices, as rental contracts often differentiate between two types of space. One type refers only to the space occupied exclusively by the tenant (senyo menseki) while the other refers to both exclusive tenant space and common space (kyoyo menseki) such as corridors, restrooms, pantry and elevator halls.

2. Deposit Money (Hosho-kin or Shiki-kin)

Before tenants start occupying any rental accommodation in Japan, they are required to pay the building owner a non-interest-bearing deposit, commonly equivalent to 10 to 12 months of rent. [In most cases the payment is requested to be made on the day of the lease signing]. This gives the new tenant credibility, while the owner generates a financial reserve out of which any tenant-incurred losses are paid. The owner will return the deposit after the delivery by the lessee of the leased premises to the lessor. Most rental contracts stipulate that the deposit money will be raised in proportion to a property's rent when the rent itself is increased.

3. Rent (Chin-ryo)

As soon as a tenant delivers belongings or begins office remodeling, rent payments must begin. Rent is usually paid for the coming month on the last day — or by the 25th day — of the month preceding it. In theory, rents can be raised if dramatic changes in economic circumstances occur, and often contracts contain such a warning. In practice, however, rents are not increased until the rental contracts fall due for renewal.

4. Common Area Maintenance Charges (Kyoeki-hi, Kanri-hi)

In addition to rent, tenants are usually asked to pay a monthly common area maintenance charge that covers the cost of utilities for common space such as lobbies, halls and restrooms, as well as the cost of building maintenance and security services. Items covered by the fee vary from building to building, so prospective tenants should confirm in advance whether the fee covers cleaning and air-conditioning and/or heating costs.

5. Repair Fees (Shuzen-hi)

The property owner is obliged to pay for structural repairs to the building such as those in common areas, and repairs to equipment and machinery. The tenant is usually asked to pay for office repairs such as repainting or papering of ceilings, walls and floors and

other areas; replacing or repair of fixtures, blinds, glass, lighting, switches or electrical outlets; and repairs of tenant-installed partitions, fixtures, and special-use equipment. For any others, please review the contract and the building rules/regulations in advance.

6. Cohabitation and Subleasing (Dokyo Tentai)

Japanese lease contracts prohibit cohabitation and subleasing. Tenancy is generally restricted to those whose names appear on the lease contract. Often, though, these rules are waived for a tenant's affiliated companies. The building owner's flexibility on this issue should be determined when the lease is being negotiated.

7. Restoration to Original Condition (Genjo-kaifuku)

When a tenant in Japan terminates a lease contract and prepares to vacate, all premises must be restored to their condition at the time that the contract commenced. This restoration is at the tenant's expense but mostly executed by the companies specified by owners and landlords. It usually includes — at a minimum — replacement of all floor carpeting, repapering all wallpapered walls, repainting ceilings (and sometimes walls), repairs to all walls, floors and ceilings, and the removal of any fixtures installed by the tenant. Owners and landlords can be counted on to rigorously enforce this.

8. Lease Term (Keiyaku Keitai)

Lease terms in Japan generally fall into two categories. The more common is a regular or standard lease that usually runs for two years but can be automatically renewed unless either party wishes to terminate the contract. Under this lease, tenants wanting to vacate before the end of the lease period can usually give written notice, typically six months in advance, and then vacate without incurring penalties. A second type of lease being increasingly adopted by owners of Class A buildings is the fixed term lease. Such leases typically run for 2-3 years, and at the end of the lease period, tenants cannot renew. Tenants wishing to remain in the property must renegotiate a new contract with the owner. Also, tenants wishing to vacate ahead of the lease expiry date must pay a penalty equivalent to the number of months' rent remaining in the contract.

9. Notice of Cancellation (Kaiyaku Yokoku)

Cancelling a contract prior to expiry usually carries no penalty for lessees in Japan as long as the lessor is notified beforehand and within the time period specified in the contract (usually 6 months). Recently, however, some landlords have demanded penalty payments.

10. Depreciation Fee (Shokyaku-hi)

Owners of small-sized buildings often demand that tenants pay a depreciation fee. This is deducted as a percentage from the deposit (usually 10% to 20%) when the contract ends, and the deposit minus the fee is then returned to the lessee. The term "depreciation fee" is used here, but there is no direct relationship between the fee and building depreciation.

11. Renewal Fee (Koshin-ryo)

Most office leases stipulate a two-year contract period, and rental contracts can be renewed upon expiry. It is common for owners of small-sized buildings to demand a renewal fee when rental contracts are renewed, and this fee is usually one month's rent at the rate stipulated in the new rental contract.

12. Construction Involving Building Structure (Kutai-ni-kakawaru Koji)

Construction work like that below may affect the building's structure, the property value or other tenants. Such work requires the building owner's express approval. It must be done by contractors the owner designates or approves of, and the tenant bears all construction costs. Some examples:

- Construction altering the building structure (where pillars, beams and/or ceilings are affected, or where a room partition is extended to the ceiling)
- Changes in air-conditioning and disaster prevention systems
- Installation of heavy machinery or equipment
- Changes in electric equipment where the whole building's power supply system could be affected

13. Commission (Chukai Tesu-ryo)

In Japan, at the time of contracting for new space, it is the tenant and not the landlord who pays the introducer or the agent a fee equal to one month's rent. This practice gives the tenant important advantages by ensuring that the agent represents the tenant only, while diligently maintaining the tenant's position and acting in the tenant's best interests in all negotiations.

1 tsubo = 3.3 sq m = 35.58 sq feet