

Japanese Law Explained

The Act on Land and Building Leases: Differences to Be Aware of in Japanese Rental Management

The number of foreign owners who own real estate and engage in rental management in Japan is increasing; however, Japanese rental contracts have features that are significantly different from other countries. Differences are due to a special law called the Act on Land and Building Leases (Shakuchi-Shakka-hō) that strongly protects tenants. When entering into a contract it is best to have a thorough understanding of this law or it can lead to unexpected trouble.

1. Basics of the Act on Land and Building Leases

The Act on Land and Building Leases is a law that governs lease relationships but is especially notable in the context of building leases (“shakka,” or tenancy), where it was created to protect the stability of the tenant's residences or businesses. For this reason, owners cannot freely terminate contracts or change rents.

2. Contract Renewal and Just Cause

Under a fixed-term lease (“futsū shakka keiyaku”), the contract does not automatically terminate even after expiration. For the owner to refuse renewal of the contract, there must be just cause (“seito jiyū”), which is determined by comprehensively considering circumstances such as:

- The owner's necessity to use the building themselves.
- The building's deterioration and required renovation.
- The tenant's actions that have damaged the relationship of trust, such as non-payment of rent.

A contract cannot be terminated simply because the owner wants to rent it to someone else or is considering selling the property.

3. The Option of a Fixed-Term Tenancy Contract

If a landlord wants the lease to end at the expiration date, they should use a fixed-term tenancy contract (“teiki shakka keiyaku”). This type of lease automatically terminates upon expiration; however, it must be in writing and explain that there will be no renewal after expiration. Landlords must be careful as any procedural errors may result in a court deeming the contract a fixed-term lease.

4. Rules for Rent Increase Claims

If the rent amount charged is too low due to changes in economic conditions or land prices, the landlord may increase rent; but, they must prove there are objective grounds for any increase. Examples of permissible objective grounds are:

- An increase in taxes and charges on land and buildings.
- A rise in land or building prices and other changes in economic conditions.
- The prices are unreasonably low compared to similar buildings nearby.

If the tenant does not agree to the rent increase, the matter may be resolved through mediation or a lawsuit.

5. Summary

While the Japanese rental market is desirable to many foreign investors, Japan’s strong tenant protections may pose legal risks different from those in investors’ home countries. Understanding the type of contract, renewal conditions, and rent revision rules, and consulting with a specialist when necessary, is the first step toward a secure and safe rental management.

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Contacts

Cross-Border Team

[Email](#) to our Cross-Border Team

E: cross-border@miyake.gr.jp

Our other documents are available [here](#).

YASUCHIKA FUKUDA

Partner

[Email](#) to Yasuchika Fukuda

E: y-fukuda@miyake.gr.jp

Profile is available [here](#).

KOJI NAMBU

Partner

[Email](#) to Koji Nambu

E: k-nanbu@miyake.gr.jp

Profile is available [here](#).

NICHOLAS KUWADA

Foreign Attorney *Not Admitted in Japan

[Email](#) to Nicholas Kuwada.

E: n-kuwada@miyake.gr.jp

Profile is available [here](#).

RIKO MIZUSEKI

Associate

Profile is available [here](#).

AYAKA MITSUI

Associate

Profile is available [here](#).

Miyake & Partners

<https://www.miyake.gr.jp/en/>

Osaka office: Nissay-Yodoyabashi-East Bldg. 16F,3-3-13, Imabashi, Chuo-ku, Osaka,541-0042 Japan

Tokyo office: Yurakucho Denki Building, North Tower,9th Floor 1-7-1 Yurakucho, Chiyoda-ku,Tokyo 100-0006 Japan
