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不動産鑑定評価基準運用上の留意事項 英訳
Japan Real Estate Appraisal Standards Guidance Notes
English Translation

公益社団法人 日本不動産鑑定士協会連合会
国 際 委 員 会

○ **実務指針**

「実務指針」とは、指針の制定改廃に関する規程第 3 条第 2 号の規定に基づき、不動産鑑定士が不動産鑑定評価等業務に係る実務を行うにあたり指針とすべきものとして、かつ当該業務の適正さを確認するための指針として公益社団法人日本不動産鑑定士協会連合会（以下、「本会」という。）が公表するもので、不動産鑑定士が当該業務を行う際には準拠するものとし、準拠できない場合又は他の方法に拠る場合は、その合理的な根拠を明示しなければならないものをいう。

○ **業務指針**

「業務指針」とは、上記規程第 3 条第 3 号の規定に基づき、不動産鑑定業者が不動産鑑定業を営むにあたり指針とすべきものとして、かつ不動産鑑定評価等業務に係る実務の適正さを確認するための指針として本会が公表するもので、不動産鑑定業者が、不動産鑑定業を営む際には、原則として準拠しなければならないものをいう。

○ **研究報告**

「研究報告」とは、上記規程第 3 条第 4 号の規定に基づき、本会が調査研究して作成した成果物のことをいい、不動産鑑定士にあつては不動産鑑定評価等業務を行うに際して、不動産鑑定業者にあつては不動産鑑定業を営むに際して、それぞれ参考になるものとして本会が公表するものをいう。

本書は、上記の内、「研究報告」に該当します。

本研究報告策定の背景

グローバルに企業・投資家が活動する現在の社会において、日本の不動産鑑定評価基準の理解を促進し、日本の不動産鑑定評価・制度に対する信頼を確固たるものとすることを目的として、国際委員会において不動産鑑定評価基準の英訳の作成を一昨年に行った。

不動産鑑定評価基準の英訳については、無償で誰にでも簡単に入手可能となることにより、不動産鑑定評価業務において海外顧客とのビジネス拡大に資することは勿論のこと、国内及び国外の様々な関係者において日本の不動産鑑定評価・制度の理解の促進につながるため、2023 年 12 月に本会の一般及び英語版のホームページにおいて公開を開始している。

公開された不動産鑑定評価基準の英訳は、幸いにして非常に多くの方々の閲覧がなされているものであり、日本の不動産鑑定評価・制度の国際的な信頼性の向上や不動産鑑定評価業務の一層の国際化が今後期待される。

上記のように大きな役割を担う不動産鑑定評価基準の英訳であるが、不動産鑑定評価基準運用上の留意事項の英訳の整備も今回行ったものであり、不動産鑑定評価基準と合わせて本留意事項を公開することで、日本の不動産鑑定評価基準の更なる理解と活用に役立つものと考えられる。

なお、「不動産鑑定評価基準英訳 用語集」(2024 年 6 月 ; 研究報告) も国際委員会・国際評価実務小委員会にて作成しており、不動産鑑定評価基準並びに不動産鑑定評価基準運用上の留意事項の英訳の理解と活用にあたり参考にしていただきたい。

以上

- 不動産鑑定評価基準運用上の留意事項の制定者

Enactor of Japan Real Estate Appraisal Standards Guidance Notes

国土交通省

The Ministry of Land, Infrastructure, Transport and Tourism

- 不動産鑑定評価基準運用上の留意事項の沿革

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JAPAN REAL ESTATE APPRAISAL STANDARDS

GUIDANCE NOTES

ENGLISH TRANSLATION

CONTENTS

I.	General Standards Chapter 2: Use Category and Interest Category of Real Estate.....	3
II.	General Standards Chapter 3: Value Influence Factors	4
1.	Property-specific factors on land	5
2.	Property-specific factors on building	6
3.	Property-specific factors on building and its site	8
III.	General Standards Chapter 5: Basic Appraisal Premises	9
1.	Identification of the subject property	9
2.	Identification of date of value	11
3.	Identification of type of value for appraisal	12
IV.	General Standards Chapter 6: Area Analysis and Property Analysis	15
1.	Application of area analysis	15
2.	Application of property analysis	18
V.	General Standards Chapter 7: Appraisal Approaches	19
1.	Appraisal approaches for determining value	19
2.	Appraisal approach for determining rent.....	36
VI.	General Standards Chapter 8: Appraisal Procedures	38
1.	Identification of client, parties for submission, and conflict of interests, etc.	38
2.	Planning of appraisal procedures	40
3.	Confirmation of the subject property	40
4.	Review of documents and analysis of value influence factors	41
5.	Application of appraisal approaches	41
VII.	General Standards Chapter 9: Appraisal Report.....	42
1.	Confirmation of client, parties for submission, and conflict of interests, etc.	42
2.	Confirmation of subject property	42
3.	Application of appraisal approaches	42
VIII.	Specific Standards Chapter 1: Appraisal of Real Estate Value.....	43

1.	Building site	43
2.	Building and its site	48
3.	Building	49
IX.	Specific Standards Chapter 2: Rent Appraisal.....	49
1.	Building site	49
2.	Building and its site	50
X.	Specific Standards Chapter 3: Appraisal of Real Estate Value for Securitization	50
1.	Basic stance on appraisal of a property for securitization	50
2.	Planning of appraisal procedures.....	50
3.	Investigation of property-specific factors of a property for securitization.....	51
4.	Application of DCF method.....	52
	Supplementary Provisions	54

The following are the Guidance Notes regarding General Standards for Real Estate Appraisal (hereinafter referred to as “General Standards”) and their Specific Standards (hereinafter referred to as “Specific Standards”).

I. General Standards Chapter 2: Use Category and Interest Category of Real Estate

The use category of real estate is an important part of the real estate appraisal procedure, including area analysis, property analysis, and the application of appraisal approaches. The following classifications can be further subdivided into residential and commercial areas, which are representative of building site areas in appraisal.

(1) Residential area

- (i) Area with a very favorable living environment, with large lots, well-organized city blocks and lots, excellent vegetation, views, and landscaping, a series of buildings of high-quality construction, and a favorable neighborhood environment, and a residential area that has traditionally been highly prestigious.
- (ii) Residential area with a good living environment formed mainly by residences of a standard site size and quality of construction.
- (iii) Residential area with a high concentration of relatively narrow detached houses and apartment buildings, or residential areas where mainly houses are mixed with commercial facilities, offices, small factories, etc.
- (iv) Rural area mainly consisting of conventional farmhouses and residential areas that have not yet developed into urban areas, regardless of whether they are within or outside the commuting area of the city.

(2) Commercial area

(i) Highly commercial area

Highly commercial area is, for example, an area in the urban center or sub-center of a large city (e.g., the 23 wards of Tokyo, government-designated cities, etc.) that has a wide trade area and a high density of relatively large-scale, medium- to high-rise commercial facilities, offices, etc. Depending on the character of the highly commercial area, the following further subdivisions are possible.

a. General highly commercial area

Area with a high concentration of commercial facilities that are mainly extremely busy and profitable

b. Business-oriented highly commercial area

Area with a high concentration of offices, mainly administrative, corporate, and financial institutions.

c. Multi-use highly commercial area

Area with a high concentration of commercial facilities and office complexes

(ii) Semi-highly commercial area

Second-tier commercial area following highly commercial area, with a wide commercial area and a high concentration of commercial facilities, offices, etc.

(iii) Ordinary commercial area

Commercial area other than highly commercial area, semi-highly commercial area, neighborhood commercial area, and suburban route commercial area, which are urban central commercial areas and equivalent commercial areas where commercial facilities, offices, etc. are interlinked and used for various purposes.

(iv) Neighborhood commercial area

Area where there is a series of commercial facilities, etc. that mainly sell daily necessities to residents in the neighborhood.

(v) Suburban route commercial area

Area where commercial facilities, business offices, etc. are located in close proximity to each other along arterial roads (national roads, prefectural roads, etc.) in the suburbs of cities.

II. General Standards Chapter 3: Value Influence Factors

With respect to the property-specific factors relating to land, buildings, and buildings and their sites exemplified in Chapter 3 of the General Standards, particular attention should be paid to the following aspects.

1. Property-specific factors on land

(1) Presence and condition of buried cultural properties

For buried cultural properties as defined in Act on Protection of Cultural Properties, excavation surveys based on the Law, suspension or prohibition of activities that would change the current status, cost burdens associated with design changes, restrictions on land use, and other factors may have a significant impact on value.

With regard to the presence or absence of buried cultural properties and their condition, special attention should be paid to the following matters, depending on the condition of the subject property and the procedures under Act on Protection of Cultural Properties.

- (i) Whether or not the subject property is included in the already known buried archaeological artifacts encompassing land as stipulated in Act on Protection of Cultural Properties.
- (ii) Whether or not excavation, prospecting, or other measures are indicated for the documentation of buried cultural properties.
- (iii) Whether or not it is already known that buried cultural properties actually exist (if excavations, etc. have been conducted in the past, the history and status of measures taken).
- (iv) If an important archaeological site is discovered and an investigation is conducted for protection, the period of suspension or prohibition of civil engineering works, etc., and whether or not design changes are required.

(2) Presence and condition of soil contamination

In the case of soil contamination, the cost of removing the contamination, preventing the spread of the contamination, and other measures (hereinafter referred to as "measures for contamination removal, etc."), as well as land use restrictions, can have a significant impact on value.

With regard to contamination of soil by specified hazardous substances as stipulated in the Soil Contamination Countermeasures Act, special attention should be paid to the following matters in accordance with the procedures under the said Act.

- (i) Whether or not the subject property includes the site of a factory or business site pertaining to a specified facility that uses hazardous substances as stipulated in the Soil Contamination Countermeasures Act, or land with a history of being the site of such a factory or business site. Note that even if the land does not fall under these categories, special attention should be paid

that contamination by specific hazardous substances as specified in the Soil Contamination Countermeasures Act exists.

- (ii) Whether or not the subject property includes land for which the obligation to conduct a soil contamination investigation under the provisions of the Soil Contamination Countermeasures Act has arisen.
- (iii) Whether or not the subject property includes land that has been designated as “area that requires measures” or “area that requires notification for any intended change in characteristics” under the provisions of the Soil Contamination Countermeasures Act (and if the subject property includes land that has been designated as area that requires measures, the details of measures to be taken, such as removal of contamination), or whether the land includes land that has a history of having been designated as “area which requires action” or that has a history of having been delisted from the designated area under the provisions of the Soil Contamination Countermeasures Act prior to the revision by the Act to Amend the Soil Contamination Countermeasures Act (2009 Law #23).

2. Property-specific factors on building

(1) Property-specific factors common to each building use

(i) Functionality of design, facilities, etc.

Special attention should be paid to the floor area of each floor, ceiling height, floor load, status of information and telecommunication support equipment, status of air conditioning equipment, elevator status, electrical capacity, availability of private power generation equipment and security equipment, status of energy conservation measures, and versatility in building use.

(ii) Building performance

With regard to the earthquake resistance of buildings, special attention should be paid to the relationship with the earthquake resistance standards under the Building Standards Act and the results of earthquake resistance diagnosis under the Law Concerning the Promotion of Seismic Retrofitting of Buildings.

(iii) State of maintenance

Special attention should be paid to the state of damage, deterioration, etc.

and state of maintenance concerning roofs, exterior walls, floors, interiors, electrical equipment, water supply and drainage equipment, sanitary equipment, fire prevention equipment, etc.

(iv) Whether or not hazardous substances are used and their condition

Special attention should be paid to whether or not asbestos is used as a construction material and the status of implementation of measures to prevent its dispersion, etc., as well as the status of use and storage of polychlorinated biphenyls (PCBs).

(v) Regulations, restrictions, etc. under public and private law

When extensions, renovations, etc., or changes of use have been made, special attention should be paid to the status of compliance with laws and regulations.

(2) Property-specific factors that require special attention for each building use

The following are examples of property-specific factors that should be given special attention for each building use.

(i) Residence

Attention should be paid to the condition of the roof, exterior walls, foundation, floor, interior, layout, and plumbing and sanitary facilities such as kitchens, bathrooms, and lavatories. In addition, in the case of a condominium unit and its site, the items listed in Specific Standards Chapter 1, Section 2, IV.1. and this Guidance Notes VIII.2. (2) should also be taken into consideration.

It is also necessary to pay attention to the performance indication based on the Japanese Housing Performance Indication Standards in accordance with the Law Concerning the Promotion of Housing Quality Assurance, etc., and the Long-term Excellent Housing Construction Plan, etc., certified in accordance with the Law Concerning the Promotion of the Spread of Excellent Long-term Housing.

(ii) Office building

Attention should be paid to the standard floor area, ceiling height, floor load, status of information and telecommunication equipment, air conditioning equipment, electrical equipment, etc., and the condition of common facilities. In particular, in the case of a large high-rise office building, the number and arrangement of elevators, and the area and arrangement of

retail space in the building should also be taken into account.

(iii) Commercial facility

Attention should be paid to the floor area and ceiling height of each floor. In particular, for large-scale commercial facilities such as shopping centers with many tenants, it is important to improve profitability while ensuring safety as a facility that attracts many customers, etc., it is necessary to pay attention to laws and regulations regarding the sales floor area, customer flow lines, product delivery lines, status of disaster prevention equipment, barrier-free access, facility location and size, etc.

(iv) Logistics facility

Attention should be paid to the number of floors, floor area of each floor, ceiling height, pillar spacing, floor load, air conditioning equipment, elevators, etc. In particular, for large-scale, highly functional logistics facilities, in addition to the storage function, they also perform functions such as packing, sorting, distribution processing, and delivery, etc. Therefore, it is necessary to pay attention to the facilities for these functions and the availability of self-driving lanes to allow access to each floor.

3. Property-specific factors on building and its site

(1) Whether or not the repair and management plan is acceptable, and the state of its implementation

Special attention should be paid to the existence of a repair plan for major repairs and the details of repair history, the existence of management rules, management contractors, and management services.

(2) Status of tenant and details of lease agreement

Special attention should be paid to the existence of rent arrears and the performance of other contractual details, the attributes of tenant (industry, company size, etc.), the ratio of the leased area of main tenant to the total leasable floor area, and the form of lease contract.

III. General Standards Chapter 5: Basic Appraisal Premises

1. Identification of the subject property

(1) Purpose of setting appraisal conditions

In the appraisal process, it is not possible to respond to the reality of diverse real estate transactions and to meet social demands only by determining the value of real estate based on the actual use and state of interest, area-specific factors, and property-specific factors as given.

Conditions are set to determine the contents of the subject property in accordance with the purpose of appraisal (requirements for the subject identification), to clarify the assumed conditions for the area-specific or property-specific factors to be set, or to clarify the scope of the investigation for specific value influence factors that are difficult to ascertain through an ordinary investigation by the Appraiser (conditions to the scope of investigation). Therefore, the purpose of setting the conditions is to clarify the scope of the appraisal and the responsibility of the Appraiser performing the appraisal.

(2) Procedure for setting appraisal conditions

Appraisal conditions are set according to the contents of the request, and the Appraiser indirectly confirms this through the act of accepting the request at the appraisal firm. However, the Appraiser should directly confirm the contents of the request, because even for the same property, differences in the appraisal value may arise depending on the conditions that have been set.

(i) Requirements for the subject identification

- a. Note that the appraisal for a property to be completed is based on the assumption that the construction of the building is completed, and the building is ready for use at the date of value.
- b. “Users of appraisal report” refers to the client and the parties for submission (as defined in Chapter VIII, Section 2 of the General Standards), as well as purchasers, etc. of financial instruments sold based on an appraisal by Appraiser in accordance with laws and regulations.
- c. “Cases where the interests of the users of the appraisal report are likely to be prejudiced” when setting requirements for the subject identification refers to the cases when setting requirements for the

subject identification differs from the actual use of the subject property, it is difficult for the users of the appraisal report to judge for themselves the degree of impact on the value of the subject property caused by the differences from the actual conditions of use.

- (ii) Setting assumptions for area-specific factors or property-specific factors
 - a. When setting assumptions, “cases where the interests of the users of the appraisal report are likely to be prejudiced” refers to cases where it is difficult for the users of the appraisal report to judge for themselves the degree of impact on the value of the subject property caused by the value influence factors that set hypothetical conditions for area-specific or property-specific factors.
 - b. Feasibility refers to the certainty that the assumptions will be realized, taking into consideration the ability of the person who takes the action to realize the set condition. It should be noted that when setting assumptions for area-specific factors, the certainty of realization of such assumptions should be confirmed directly from the department in charge of the public agency that has the authority to realize the assumptions.
 - c. Legitimacy means that it does not violate various regulations under public and private law.
- (iii) Setting conditions to the scope of investigation
 - a. The following are examples of specific value influence factors for which it is difficult to ascertain facts to determine the degree of impact on the value of the subject property within the scope of Appraiser's standard investigation.
 - (a) The presence or absence of soil contamination and its condition.
 - (b) The presence or absence of the use of hazardous substances in connection with the building and its condition.
 - (c) The presence or absence of buried archaeological artifacts and underground structures and its conditions.
 - (d) The area of the subject property in the case where there is an indeterminate portion of the boundary with the adjacent property.
 - b. The following are examples of cases in which it is determined that setting the conditions to the scope of investigation with respect to

specific value influence factors is not likely to prejudice the interests of users of the appraisal report.

- (a) When the user of the appraisal report makes his/her own judgment of the impact on the value of the property based on the results of investigation, estimation or consideration of such value influence factors by the client.
 - (b) In the case where the handling of such value influence factors between the contracting parties is stipulated in a real estate sales contract, etc.
 - (c) Where the security interest holder has guidelines regarding the treatment of such value influence factors when they exist, and an investigation is conducted to contribute to its judgement.
 - (d) In the event that losses in the case of the existence of such value influence factors are covered by insurance.
 - (e) When an allowance is made for the existence of such value influence factors in the appraisal for the preparation of financial statements, when notes are made in the financial statements regarding the existence or non-existence of such factors and their treatment in financial accounting, or when the degree of impact of such value influence factors is separately considered in financial accounting.
- c. For value influence factors that are included in the conditions to the scope of investigation, it is necessary to clarify the treatment of such value influence factors.

2. Identification of date of value

(1) Date of value for renewed rent

It should be noted that the date of value in cases where an increase or decrease in rent is requested pursuant to Article 11, Paragraph 1 or Article 32, Paragraph 1 of the Land and House Lease Law is the base date for the rent revision pertaining to the rent increase or decrease request.

(2) Appraisal as of past date

An appraisal as of past date may be performed only when it is possible to confirm the subject property and collect the necessary documents on value influence factors and comparable data for the appraisal. In some cases, the subject property and subject neighborhood may have changed over time between the date of value

and the time of appraisal. In the cases of confirming the subject property as of the date of value where there were changes in circumstances, the confirmation documents need to be collected as much as possible that are close to the date of value, and the judgement must be made based on such documents.

(3) Appraisal as of future date

Appraisal as of future date will be conducted based on assumptions and projections regarding determination of the subject property, identification of value influence factors, analysis, and determination of highest and best use of the property, and the documents to be collected are limited to those available up to the time the appraisal is performed, and thus it will be necessarily uncertain. Therefore, in principle, such appraisals should not be conducted. However, when particularly necessary, a future date for appraisal may be set if it is deemed that the appraisal will not lack validity.

3. Identification of type of value for appraisal

(1) Market value

Conditions that are considered reasonable under real socioeconomic conditions

(i) Ordinary access for purchasers to financing

Ordinary access for purchasers to financing refers to the ability of the purchaser to raise funds for the acquisition of the subject property by borrowing under standard market borrowing conditions (borrowing ratio, interest rate, borrowing period, etc.) and by using its own capital.

(ii) Subject property been on the market for a suitable period of time

A suitable period of time is defined as the period of time until the information necessary for the acquisition of the subject property is disclosed to the public and has fully permeated the demand base. It should be noted that a reasonable period of time varies depending on the demand-supply trend in the real estate market at the date of value, the type and character of the subject property, and other factors.

In addition, being publicly available means assuming a situation in which the market was already publicly available at the date of value (it should be noted that this does not mean that the information is publicly available after the date of value until the closing of the sales transaction.)

(2) Market value based on special considerations

(i) Laws and regulations, etc.

Laws and regulations, etc., mean laws, government ordinances, cabinet office ordinances, ministerial ordinances, and other rules, public notices, directives, and notifications of national administrative organs, as well as rules of the Supreme Court, ordinances, rules of local public entities, guidelines set by organizations of the Appraisers (this refers to guidelines established by an association or foundation that has notified the Minister of Land, Infrastructure, Transport and Tourism in accordance with Article 48 of the Real Estate Appraisal Act, and for which consensus has been reached within the association through discussions with the Ministry of Land, Infrastructure, Transport and Tourism), standards for corporate accounting, and auditing standards.

(ii) Examples of cases where market value based on special considerations is estimated

For each of the cases listed as examples of cases in which a market value based on special considerations is estimated, the reasons for estimating market value based on special considerations are as follows.

a. When determining a value that represents the investment profitability value to be shown to investors under the appraisal purposes for properties for securitization as specified in Chapter 3, Section 1 of Specific Standards.

In this case, for the purpose of disclosing to investors the value of the asset (hereinafter referred to as “investment asset”) invested by an investment corporation, investment trust, or special purpose company, etc. (hereinafter referred to as “investment corporation, etc.”) at the time of acquisition or during the holding period, it is necessary to determine the investment profitability value based on the value by the income capitalization approach that appropriately reflects the earning capacity of the subject property from the viewpoint of investor protection.

For appraisals that seek the value of real estate as an investment asset at the time of acquisition or during the holding period, the method of management of the subject property disclosed to investors through

asset securitization plans, etc. shall be given under the above appraisal purposes. However, if the use of the subject property in that manner would differ from the highest and best use of the subject property, the value shall be determined as the market value based on special considerations. It should be noted that the value requested in an appraisal should be market value when an investment corporation, etc. transfers an investment asset.

- b. For appraisal purposes under the Civil Rehabilitation Law, where the value is based on the premise of an early sale

In this case, the value is to be obtained as a disposition of property under the appraisal purpose based on the Civil Rehabilitation Law, and should be obtained as an appropriate disposition price, taking into consideration the possibility of early disposition, according to the type, character, and actual conditions of the subject property and the area where it is located. Since the appraisal is based on the assumption that the property will be sold in a shorter period of time than the normal open market period, it must be estimated as market value based on special considerations unless there are special circumstances in which it is determined that there will be no depreciation due to early sale.

- c. Where the value is sought for appraisal purposes under the Corporate Reorganization Act or Civil Rehabilitation Act, on the assumption that the business will continue to operate.

In this case, the value is sought for appraisal purposes under the Corporate Reorganization Law or the Civil Rehabilitation Law, assuming that the current business will be continued under the restraints of such business.

In the appraisal under the above appraisal purposes, if the assumed use of the subject property differs from the highest and best use of the subject property taking the current state of use of the subject property as a given, it must be determined as a market value based on special considerations.

IV. General Standards Chapter 6: Area Analysis and Property Analysis

1. Application of area analysis

(1) Area analysis of the subject neighborhood area

- (i) Area analysis of the subject neighborhood area first identifies the subject neighborhood area in which the subject property is located, followed by an understanding of what characteristics the subject neighborhood area has.

In clarifying the subject neighborhood area in which the subject property is located and understanding the characteristics of the subject neighborhood area, area-specific factors must be repeatedly investigated and analyzed based on the characteristics of the market for the subject property in the area extending outward from the subject property, and the differences must be clarified.

This also requires a broad-based analysis of the real estate that is the constituent molecule of the area, together with the areas that will become the subject neighborhood area and other surrounding areas, since this will ultimately extract the areas that share the same area-specific factors.

- (ii) In ascertaining the relative position of the subject neighborhood area, the disparity in relative area-specific factors shall be determined by comparing area-specific factors of similar areas within the same supply and demand area with those of the subject neighborhood area based on the characteristics of the market for the subject property. Furthermore, a comparative study of area-specific factors of the subject neighborhood area with those of other areas in the vicinity is also useful.
- (iii) In the area analysis of the subject neighborhood area, the documents on value influence factors pertaining to the subject neighborhood area in which the subject property is located shall be analyzed. As a precondition for this analysis, the characteristics of the market pertaining to the subject property and the area-specific factors pertaining to a broader area, including the subject neighborhood area, shall be identified and analyzed. For this purpose, efforts should be made to collect and analyze the documents on the value influence factors pertaining to the wider area on a daily basis.
- (iv) In analyzing the area-specific factors in the area analysis of the subject neighborhood area, it is necessary to analyze the transitions and trends of

the area-specific factors in the neighborhood area over time, as well as the transitions and trends of the area-specific factors in other areas surrounding the subject neighborhood area and the degree of their spread to the subject neighborhood area. In this case, it is necessary to accurately grasp the degree of influence of the market characteristics of the subject property on the land use and value in the subject neighborhood area.

For land with prospective use and transitional use, trends and changes in area-specific factors, especially in the surrounding areas, are effective evidence for forecasting trends in land changes.

(2) Determination of the scope of the subject neighborhood area

In determining the extent of the subject neighborhood area, it is necessary to take into consideration the following matters that affect the basic land use pattern and convenience in land use.

(i) Those pertaining to natural conditions

a. River

A river with a wide width, etc., may break up the connectivity of land, buildings, etc., and the unity of the area.

b. Mountain and hill

Mountain and hill, as well as river, may affect sunlight, ventilation, dryness and humidity, in addition to breaking up the connectivity of land, buildings, etc. and the unity of the area.

c. Topography, geology, ground, etc.

The topography, geology, ground, etc. affect sunlight, ventilation, dryness and humidity, etc., as well as land use pattern such as residential and commercial activities.

(ii) Those pertaining to socioeconomic aspect

a. Administrative district

Differences in the level of development of road, water supply and other public facilities, school and other public facilities, and the burden of taxes and public dues, etc., due to differences in administrative districts affect the convenience of land use, etc.

b. Public law, regulation, etc.

The content of land use regulations under the City Planning Act, etc., which affects land use patterns.

- c. Railroad, park, etc.
Railroad, park, etc. may break up the connectivity of land, buildings, etc. and the unity of the area.
- d. Road
Wide road, etc. may break up the connectivity of land, buildings, etc. and the unity of the area.

(3) Characteristics of the market for the subject property

(i) Perspectives for understanding

- a. Attributes and behavior of market participants in the same supply and demand area

In understanding the attributes and behavior of market participants in the same supply and demand area, particular attention should be paid to the following:

- (a) With respect to the attributes of market participants, in the case of business properties, the type of business, type of industry, whether it is a corporation or an individual, and the geographical area in which the main demander and supplier segments exist.

In the case of residential properties, the age, family structure, and income level of the main demander and supplier segments, as well as the geographical area in which the demander segment exists.

- (b) Details of the value influence factors that market participants with the attributes identified in (a) above place importance on when making decisions on whether to trade, the price of a transaction, the terms of a transaction, etc.

- b. Supply and demand trends in the same supply and demand area

In understanding market demand and supply trends in the same supply and demand area, particular attention should be paid to the following matters:

- (a) Trends in supply and demand for properties that are similar to the subject property in use, size, quality, etc. and are located within the same supply and demand area.
- (b) The nature and extent of the impact on the value of the subject property of the supply and demand trends identified in (a) above.

(ii) Documents for understanding

In order to understand the characteristics of the market for the subject property, it is necessary to collect information on transactions, etc. (number of transactions, sale prices, asking sales prices, asking purchase prices, etc.) from real estate agents, construction companies, financial institutions, etc. through interviews, etc. on a regular basis. In addition, it is important to collect and analyze a wide range of publicly available information on trends and developments in the local economy and real estate market from public agencies, real estate agents, financial institutions, commercial and industrial organizations, and others.

2. Application of property analysis

(1) Points to keep in mind when analyzing property-specific factors

The following points should be taken into consideration when estimating the superiority and competitiveness of the subject property compared to other properties that are substitutes for or in competition with the subject property.

- (i) The value range in which demand for the same type of property is centered and the attributes of the primary demanders.
- (ii) Demander preferences regarding the location, size, functions, surrounding environment, etc. of the subject property.
- (iii) The number of inquiries for the subject property

(2) Points to keep in mind in determining the highest and best use

- (i) Considerations in determining the highest and best use based on forecasts of changes in area-specific factors

In anticipating changes in area-specific factors, the probability of realization of the timing and details of such variation must be found to be high based on generally collectible and reliable information when appraisal is conducted, taking account of the limits of the anticipation.

- (ii) Considerations in determining the highest and best use of a building and its site
When demolition or change of use of a building is assumed from the viewpoint of the highest and best use of the building, the following points should be especially considered in comparing the economic value taking account of the costs required for the demolition or change of the building use with the economic value of continuing the use of the building,

- a. Physical and legal feasibility of demolition or change of use of the building concerned
- b. Uncertainty in the forecast of changes in income based on the degree of competitiveness of the subject property after the demolition or change of use of the building, and the degree of lost income during the period required for the demolition or change of use.

V. General Standards Chapter 7: Appraisal Approaches

1. Appraisal approaches for determining value

(1) General considerations when determining indicative value

(i) Selection of sales comparables

- a. In the case of selecting those pertaining to real estate located in the vicinity of the subject neighborhood area when it is necessary and unavoidable

In this case, “unavoidable necessity” means a case where it is recognized that the majority of sales comparables collected for real estate in the neighborhood area or similar areas within the same supply and demand area are significantly affected by special circumstances, or other special circumstances that make it impossible to conduct an appraisal appropriately based on the said sales comparables alone.

- b. Selecting alternative competitive property within the same supply and demand area when the highest and best use of the subject property differs from standard use

In this case, when the highest and best use of the subject property differs from the standard use, it refers to cases where the degree of restriction of the neighborhood area is recognized as being significantly small due to the individuality of the subject property, as exemplified by the following cases

- (a) In a detached housing area, where there are large-scale condominium developments in the vicinity and where there are large plots of land that are considered suitable for condominiums due to their excellent location and potential for high-level use.
- (b) In an area that is purely used for mid- to high-rise offices, where

there is a hotel with excellent transportation convenience and the ability to attract customers over a wide area.

- (c) In a residential area, where there is a suburban large-scale commercial facilities with a wide trade area in close proximity to an arterial road.
- (d) In an area with a concentration of small and medium-sized office buildings, where there is a large office building with outstanding competitiveness completed by site consolidation.
- c. Points to keep in mind when determining the relationship between substitution, competition, etc.

In the case of b. above, the sales comparables pertaining to alternative competitive property within the same supply and demand area to be selected shall meet the following requirements:

- (a) Similarity with the subject property in terms of use, size, and quality, etc., must be clearly recognized.
 - (b) It is clearly recognized that it has a direct influence on the value of the subject property.
 - (ii) Comparison of area-specific factors and property-specific factors
- It should be noted that when selecting alternative competitive properties within the same supply and demand area as sales comparables, comparisons with the subject property for value influence factors should be made not only for property-specific factors but also for area-specific factors that affect the characteristics of the market.

(2) Cost approach

- (i) Method for determining reproduction cost
 - a. Expansions, renovations, repairs, and redecoration of buildings shall be properly reflected in the assessment of reproduction cost, based on the details of such expansions, renovations, repairs, and redecoration.
 - b. Financing cost means the financing cost corresponding to the period until taking ownership of the completed building from the contractor with respect to funds equivalent to the construction cost and the costs to be borne by the client.
 - c. The amount equivalent to development risk is the amount of risk borne

by the operator (client) with respect to the uncertainty that would normally be borne by the operator (client) with respect to the real estate involving development until the completion of the construction work related to the development and the full realization of the real estate's utility.

(ii) Method of depreciation adjustment

- a. In cases where the subject property is a building and its site, there are cases where depreciation is adjusted for the reproduction cost of the land and the building, respectively, and then added together, but care should be taken to ensure that the same depreciation factors are not considered in duplicate throughout the depreciation adjustment process. In such cases, the same depreciation factors should not be considered twice in the process of depreciation adjustments.
- b. When applying the methods based on useful life and observation, particular attention should be paid to the degree of impact of the building's expansion, renovation, repair, and redecoration on the useful life and depreciation factors, taking into account the marketability of the subject property.

(3) Sales comparison approach

In applying this approach, a large number of sales comparables shall be collected, and comparables that can be used as value guidance shall be selected. In order to increase the effectiveness of this approach, efforts shall be made to collect not only sales comparables but also a wide range of data such as asking prices to sell, asking prices to buy, and opinions of professionals.

These data and documents can be fully utilized to understand the value level and trends of land prices in the subject neighborhood area.

(i) Collection of comparables

The analysis and examination of a large number of sales comparables is indispensable for eliminating special circumstances inherent in individual transactions, ascertaining the time adjustment rate, and understanding the degree of impact of value influence factors on the value of the subject property. In particular, the selected sales comparables serve as the basic data for determining the indicative value by applying the sales comparison approach, and the reliability of the collected sales comparables influences

the accuracy of the indicative value.

In sales comparables, the viewpoints to be considered for each transaction differ depending on the purpose of use of real estate, the diversity of values concerning real estate, and the transaction circumstances of the seller and the buyer due to the motive of the transaction. Therefore, the attributes of the parties involved in the transaction, including the circumstances of the transaction, should be taken into consideration.

(Same as the attributes of market participants listed in “IV. General Standards Chapter 6: Area and Property Analysis” of these notes.) and changes in the level of transaction prices must be carefully analyzed.

(ii) Adjustment for conditions of sale

In determining whether or not and to what extent a correction is necessary, a number of sales comparables should be compared and contrasted in a comprehensive manner.

The following are examples of special circumstances that require an adjustment.

a. Special circumstances that should be reduced in the adjustment

- (a) When a transaction is conducted on the premise of a special use such as business location limitation.
- (b) When transactions are conducted under unusual market conditions, such as extreme supply shortages or overly optimistic outlooks for the future.
- (c) When transactions are conducted for the purpose of acquiring intermediate profits among vendors or affiliates.
- (d) When a transaction is conducted for an excessive amount when the buyer clearly lacks knowledge or information concerning the real estate.
- (e) When the transaction price includes an amount equivalent to the interest rate due to installment payments of the purchase price, a move-out fee, a release fee, or other items other than the consideration for the land.

b. Special circumstances that should be increased in the amendment

- (a) When a transaction is conducted for an insufficient amount when the seller clearly lacks knowledge or information concerning the real estate.

- (b) When the transaction was made in a hurry to sell due to inheritance, transfer, etc.
 - c. Special circumstances that should be reduced or increased in the amendment
 - (a) When a beneficial transaction between corporations or a beneficial transaction between acquaintances, relatives, or other human relationships is conducted in times of financial distress or bankruptcy.
 - (b) When a transaction is conducted in consideration of disproportionate development costs, repair costs, etc.
 - (c) When the price is established in mediation, liquidation, auction, public sale, etc.
 - (iii) Time adjustment
 - a. The time adjustment rate should be determined by conducting a time-series analysis of a large number of transactions that occurred prior to the date of value, and by comprehensively taking into account changes in social and economic factors, such as trends in national income, fiscal and financial conditions, trends in public investment, trends in construction starts, trends in real estate transactions, and general factors such as changes in administrative factors including land use regulations and the tax system. These should be determined by comprehensively taking into account trends in the following areas.
 - b. In principle, the time adjustment ratio shall be determined in accordance with a. above, but in addition to utilizing data such as official land price announcements and prefectural land price surveys, etc., when appropriate sales comparables are scarce, various data concerning trends in asking prices to sell, asking prices to buy, etc., and market supply and demand trends may be used as reference.
- (4) Income capitalization approach
 - (i) Application of the direct capitalization method
 - a. Calculation of net cash flow for a period

The net cash flow for a period to be capitalized in the application of the direct capitalization method and the corresponding capitalization rate to be adopted must be consistent in the way they are ascertained.

In other words, when adopting a standardized net cash flow for a certain period as the net cash flow for one period to be capitalized, it is necessary to adopt a corresponding capitalization rate. In addition, when calculating the net cash flow from real estate that includes buildings and other depreciable assets (hereinafter referred to as “buildings, etc.”), the net cash flow before depreciation should basically be used, without deducting depreciation, and the cap rate should be used by the cap rate corresponding to the net cash flow.

$$P = \frac{a}{R}$$

P: Value of buildings, etc. by the income capitalization approach

a : Net cash flow before depreciation of buildings, etc.

R: Capitalization rate corresponding to net cash flow before depreciation

On the other hand, if net cash flow after depreciation is used, the cap rate must also correspond to the net cash flow after depreciation.

There are several methods for calculating depreciation, including the straight-line method and the method using the sinking fund factor, which should be used appropriately.

$$P = \frac{a'}{R'}$$

P : Value of buildings, etc. by the income capitalization approach

a': Net cash flow after depreciation of buildings, etc.

R': Capitalization rate corresponding to net cash flow after depreciation

The formula for determining the cap rate corresponding to the net cash flow after depreciation using the cap rate corresponding to the net cash flow before depreciation is as follows:

$$R' = \frac{a'}{(a' + d)} \times R$$

R': Capitalization rate corresponding to net cash flow after depreciation

R: Capitalization rate corresponding to net cash flow before depreciation

a': Net cash flow after depreciation

d : Depreciation expense

b. Land residual method

When the subject property is a vacant land, and when it is possible to determine the value of the building, etc. by a method other than the income capitalization approach, assuming the construction of a building, etc. on the land for the highest and best use, the residual net cash flow after deducting the net cash flow attributable to the building, etc. from the net cash flow based on the building and its site is capitalized by the capitalization rate (called the land residual method). The method of capitalizing the value of the estimated building, etc. by the capitalization rate (referred to as the “land residual method”) may be applied.

If the real estate consists of a combination of the site and buildings, etc., and the value of the buildings, etc. can be determined by a method other than income capitalization approach, the land residual method can be applied. However, if the buildings, etc. are old, the net cash flow attributable to the land from the net cash flow generated by the composite property cannot be accurately determined in many cases. The land residual method is effective when the net cash flow generated by a composite property consisting of land and buildings, etc., can be properly allocated to the land and buildings, etc. When applying the land residual method to determine the value of land by the income capitalization approach, it is basically expressed by the following equation.

$$P_L = \frac{a - B \times R_B}{R_L}$$

P_L : Value of land by the income capitalization approach

a: Net cash flow before depreciation of the building and its site

B: Value of the building, etc.

R_B : Capitalization rate for buildings, etc. corresponding to net cash flow before depreciation

R_L : Capitalization rate for land

In applying the land residual method, it is necessary to appropriately determine the net cash flow generated by the composite property and the net cash flow attributable to the land, taking into account the life cycle perspective of the rental business.

c. Building residual method

Where real estate consists of a combination of the site and buildings, etc., and the value of the site can be determined by a method other than income capitalization approach, the method of capitalizing the residual net cash flow after deducting the net cash flow attributable to the site from the net cash flow based on the said real estate by the capitalization rate (called the building residual method) may be applied.

The building residual method is effective when the net cash flow generated by the composite property consisting of land and buildings, etc. can be properly allocated to the land and buildings, etc.

When applying the building residual method to determine the value of a building, etc. by the income capitalization approach, it is basically expressed by the following equation.

$$P_B = \frac{a - L \times R_L}{R_B}$$

P_B : Value of buildings, etc. by the income capitalization approach

a : Net cash flow before depreciation of the building and its site

L : Value of land

R_L :Cap Rate of return for land

R_B : Capitalization rate for buildings, etc. corresponding to net cash flow before depreciation

d. Fixed-term capitalization method

Where real estate consists of a combination of a building and its site, etc., there is a method of determining the income value by multiplying the net cash flow before depreciation based on the operation of real

estate for business purposes other than leasing or renting by a compound annuity present value rate based on a discount rate and a finite period of earnings, which is basically expressed by the following formula.

$$P = a \times \frac{(1 + Y)^N - 1}{Y(1 + Y)^N}$$

P : Value of land and buildings by the income capitalization approach,

a : Net cash flow before depreciation of the building and its site

Y : Discount rate

N : Profitability period (the period of time over which the company expects to earn income, which in this case corresponds to the economic remaining useful life of the building, etc.).

$$\frac{(1 + Y)^N - 1}{Y(1 + Y)^N}$$

: Compound annuity present value rate

There is a method (the Inwood formula) that uses the compound annuity present value rate and adds or subtracts the value of the land at the end of the income period and the residual value of the building, etc. or the cost of removal of the building, etc., converted to their respective present values. Based on the concept of this method, the formula using the discount rate is shown below.

$$P = a \times \frac{(1 + Y)^n - 1}{Y(1 + Y)^n} + \frac{P_{Ln} + P_{Bn}}{(1 + Y)^n} \quad \text{or}$$

$$P = a \times \frac{(1 + Y)^N - 1}{Y(1 + Y)^N} + \frac{P_{LN} - E}{(1 + Y)^N}$$

P : Value of the building, etc. and its site by the income capitalization approach

a : Net cash flow before depreciation of the building and its site

Y : Discount rate

N,n: Income period (the period during which is expected to earn income, where N is the period when the income period is the same as the remaining economic life of the building, etc., and n is the period when the income period is less than the remaining economic life of the building, etc.).

P_{Ln} : Land value after n years

P_{Bn} : Building value after n years

P_{LN} : Land value after n years

E : Removal cost of building, etc.

Another method (the Hoskold formula) uses the sinking fund factor and discount rate based on accumulated yields and other factors instead of the compounded annuity present value rate described above.

Based on the concept of this method, the formula using the discount rate is as follows

$$P = a \times \frac{1}{Y + \frac{i}{(1+i)^n - 1}} + \frac{P_{Ln} + P_{Bn}}{(1+Y)^n} \quad \text{or}$$

$$P = a \times \frac{1}{Y + \frac{i}{(1+i)^N - 1}} + \frac{P_{LN} - E}{(1+Y)^N}$$

P : Value of the building, etc. and its site by the income capitalization approach

a : Net cash flow before depreciation of the building and its site

Y : Discount rate

i : Accumulated yield

N,n: Income period (the period over which it is expected to earn income, where N is the period when the income period is the same as the remaining economic life of the building, etc., and n is the period when the income period is less than the remaining

economic life of the building, etc.).

$$\frac{i}{(1+i)^n - 1} : \text{Sinking Fund Factor}$$

P_{Ln} : Land value after n years

P_{Bn} : Value of building etc. after n years

P_{LN} : Land value after n years

E : Removal cost of building, etc.

e. How to determine the cap rate

The cap rate must be determined as a cap rate that reflects actual market conditions, and since the cap rate includes forecasts of changes in the net cash flow to be capitalized, these forecasts must be accurately made and reflected in the cap rate. The following is an example of a method for determining the capitalization rate. In applying this method, one of the following methods may be used, or a combination of methods may be used. In addition, when necessary, opinions of investors, etc. and well-developed real estate indexes, etc. shall be used as references.

(a) Method obtained from comparison with sales comparables of similar real estate

The collection and selection of sales comparables shall be in accordance with the method of applying the sales comparison approach set forth in Chapter 7 of the General Standards.

In determining the yield obtained from the sales comparables (“transaction yield”), it is necessary to pay attention to which of the net cash flow before and after depreciation should be used for the sales comparables. In addition, it should be noted that the sales comparables should not be adopted if the net cash flow has special factors (e.g., unstable occupancy rate immediately after new construction or reconstruction, etc.) and cannot be appropriately adjusted.

This method is particularly effective when an abundance of transaction yields related to sales comparables that are highly similar to the subject property can be collected.

(b) Method obtained from the capitalization rate for debt and equity

This method focuses on the financing component of demanders who have standard financing capacity when acquiring real estate, and is superior in reflecting the yields on real estate investments and trends in the financial markets when financing.

The above method is basically expressed by the following equation.

$$R = R_M \times W_M + R_E \times W_E$$

R: Capitalization rate

R_M : Debt capitalization rate

W_M : Debt ratio

R_E : Equity capitalization rate

W_E : Percentage of equity

(c) Method to determine from the capitalization rate for land and buildings, etc.

This method is superior in reflecting the trends in the market where the subject property consists of land and buildings, etc., and where the yields on the land and buildings, etc., are understood to be different.

The above method is basically expressed by the following equation.

$$R = R_L \times W_L + R_B \times W_B$$

R: Capitalization rate

R_L : Land Capitalization Rate

W_L : Value ratio of land

R_B : Capitalization rate of buildings, etc.

W_B : Value ratio of buildings, etc.

(d) Method to determine from the relationship with the discount rate

This method is effective when net cash flow is earned in perpetuity and net cash flow is assumed to have a constant trend.

An example of an equation that expresses the relationship between the capitalization rate and the discount rate is expressed as follows

$$R=Y-g$$

R: Capitalization rate

Y: Discount rate

g: Percentage change in net cash flow

(e) Method by utilizing the debt service coverage ratio

The cap rate is calculated by dividing the net cash flow for a certain period by the principal and interest repayment amount of the debt for the same period (the value of the net cash flow for a certain period divided by the principal and interest repayment amount of the debt for the same period).

It should be noted that the debt service coverage ratio used in this case should be calculated based on the average net cash flow over the debt period. This method is effective when the focus is on the financing of the purchaser of the real estate and only the income generated from the subject property is used as the source of repayment of the debt.

The above method is basically expressed by the following equation.

$$R=R_M \times W_M \times \text{DSCR}$$

R: Capitalization rate

R_M : Capitalization rate on debt

W_M : Percentage of debt

DSCR: Debt Service Coverage Ratio (usually must be at least 1.0)

(ii) Application of the DCF method

The DCF method is highly explanatory in terms of the process of determining the value by the income capitalization approach because it projects the net cash flow and reversion value that will occur over several consecutive periods and makes them explicit.

Even if the subject property is vacant land, this method may be applied by assuming the construction of a building for lease, etc. on the land for the

most efficient use.

a. Calculation of net cash flow for each period

In calculating the net cash flow from buildings, etc., basically the net cash flow before depreciation without deducting depreciation shall be used, and depreciation of buildings, etc. shall be taken into account in the reversionary value.

(a) Calculation of total income

For security deposits, etc., which are lump-sum payments with deposit-like characteristics, there are two methods: one is to assume that the entire amount is deposited as a reserve for refund and to recognize the investment profit when it is incurred, and the other is to recognize the entire amount as income or expenses at the time of delivery.

(b) Calculation of total expenses

There are two methods of accounting for expenses such as major repair expenses: one is to record such expenses as an accumulation for each fiscal period, and the other is to record such expenses at the time when they are actually paid out. The forecast of the timing of actual expenditure should be made appropriately according to the actual condition of the subject property.

b. How to estimate discount rate

The discount rate should be obtained as a yield that reflects the prevailing market conditions and is generally obtained in units of one year. Note that the discount rate will vary depending on the degree of uncertainty in the income projection that was not taken into account in the income projection.

The following is an example of a method for determining the discount rate. In applying the method, one of the following methods may be used, or a combination of methods may be used. In addition, when necessary, opinions of investors, etc. and well-developed real estate indices, etc. shall be used as references.

(a) Method obtained from comparison with sales comparables of similar real estate

The collection and selection of sales comparables shall be in

accordance with the application method for the sales comparison approach set forth in Chapter 7 of the General Comments.

The discount rate for sales comparables is basically the Internal Rate of Return (IRR), which is calculated based on the transaction yield. The IRR is the discount rate that makes the present value of future income equal to the initial investment principal. In order to apply the IRR, it is necessary to be able to predict the net cash flow of the sales comparables for each period.

This method is particularly effective when yields on sales comparables with similarities to the subject property can be collected in abundance.

(b) Method obtained from the discount rate related to debt and equity

This method focuses on the financing factors of a borrower who has standard financing capacity when acquiring real estate, which is superior in reflecting the yields on real estate investments and the trends in the financial market when financing. In applying this method, it is necessary to use as a basis the debt ratio and the ratio of equity that a typical investor in real estate investment would assume.

The above method is basically expressed by the following equation.

$$Y = Y_M \times W_M + Y_E \times W_E$$

Y: Discount rate

Y_M : Debt discount rate

W_M : Percentage of debt

Y_E : Yield on equity discount rate

W_E : Percentage of equity

(c) Method to obtain the yield on financial assets by taking into account the individual characteristics of real estate

The yield on 10-year JGBs is generally used as the yield on financial assets for comparison. In addition, yields on stocks and corporate bonds are sometimes used for comparison.

The individual characteristics of real estate include the riskiness as

an investment object, illiquidity, difficulty of management, and safety as an asset, and the high possibility that the value may fluctuate due to the occurrence of natural disasters or changes in land use plans and regulations, the fact that a suitable buyer may not always be found at the desired time, the fact that it requires expertise and experience in rental management and that the income obtained depends on good management, and the fact that land in particular is generally not destroyed.

This method is effective when the uncertainty of the income projection arising from the subject property is ascertainable in comparison with financial assets.

c. Holding period (or analysis period if sale is not assumed)

The holding period should be determined as a period of time over which accurate forecasts of net cash flow each period and reversionary value can be made, and should be based on the typical holding period of a typical investor in real estate investment. The holding period should not be so long that a typical investor would not generally assume.

d. How to determine the reversionary value

If the property is expected to be sold at the end of the holding period, the cost of the sale should be deducted.

When determining the reversionary value by capitalizing the net cash flow for the $n+1$ period at the terminal capitalization rate, it is necessary to accurately reflect the forecasted changes in net cash flow after the $n+1$ period and the uncertainty associated with the forecast in the net cash flow for the $n+1$ period and the terminal capitalization rate.

In the case where demolition or change of use of the building is already planned after the end of the holding period, or demolition is expected due to the building's age, etc., it is necessary to determine the reversionary value by considering the costs required for such demolition or change of use.

e. How to determine the terminal capitalization rate

The terminal capitalization rate should be determined based on the cap rate at the date of value, reflecting the market trend at the end of the

holding period and the uncertainty associated with the forecasted and predicted changes in income thereafter.

(iii) Real estate for business use

- a. Real estate for lease or real estate used for a business other than lease, the profitability of which is strongly influenced by the trend of the management of the business concerned (in the case of real estate for lease, the business by the lessee) (hereinafter referred to as “business real estate”). Examples are as follows:

- (a) Hotels and other lodging facilities
- (b) Golf courses and other leisure facilities
- (c) Medical and welfare facilities such as hospitals and fee-based senior care housings
- (d) Commercial facilities such as department stores and shopping centers consisting of many stores.

b. Characteristics of business real estate

(a) Diversity of management forms

It should be noted that there are various types of business operations of business real estate, such as directly managed by the owner, outsourced management, and leasing of business real estate, etc., and that the method for ascertaining net cash flow and the degree of realization of such net cash flow may differ depending on the type of operation.

(b) Analysis of profitability of business real estate

In analyzing the profitability of business real estate, it is important to take a medium- to long-term perspective on the socioeconomic conditions that affect business operations, as well as the superiority and competitiveness of the property compared to other properties that are substitutes or competition in the area where the property is located.

The business results and business plans, etc. submitted by the client, etc. are useful as materials for the above analysis, but should not be solely relied upon. Sustainability and feasibility of the results/plans, etc. shall be fully examined from the viewpoint of the operator of

the project (hereinafter referred to as the “operator”).

- c. Points to keep in mind when ascertaining gross income from business real estate

For business real estate, it is often difficult to ascertain appropriate rents based on lease comparables because of the high degree of individuality in the way they are used and the relative lack of maturity of the lease market. Therefore, when calculating the amount equivalent to rent paid based on sales from such business, it is necessary to ascertain the appropriate rent level from the perspective of the profitability of the business.

Even in cases where business real estate is currently leased, it is useful to analyze the relationship between the rent under the current lease contract and the appropriate rent level identified from the perspective of business profitability.

In these cases, it is necessary to analyze future business management trends from a medium- to long-term perspective and consider whether the rent, etc. in question is at a level that can be stably received for a reasonable period of time.

It should be noted that excess earnings generated by an operator's unusually superior capabilities are essentially attributed to the operator's management, etc. However, when there is an agreement in the lease contract that a part of such excess earnings will be stably attributed to the real estate owner, a part of such excess earnings may be attributed to such business real estate.

2. Appraisal approach for determining rent

(1) Summation approach

In determining the base value, the following items should be taken into consideration:

- (i) When determining the rent for residential land (termed “land rent”)
 - a. If the highest and best use is possible, the value is immediate to the economic value of the vacant land.
 - b. In the case of a lease, etc. for the purpose of owning a building, if the highest and best use of the site is not expected under the contract, the value is the immediate economic value of the land portion of built-up

property subject to the terms of the contract.

(ii) When seeking rent for a building and its site (termed “building rent”)

The value corresponds to the economic value of the building and its site, which is based on the use of the building and its site in its present condition.

(2) Rental data comparison approach

(i) Selection of comparables

a. In selecting comparables for leases, etc., comparables similar to the subject property should be selected as many as possible, bearing in mind that rent levels generally differ depending on whether the rent is a new rent or a renewal rent, or the building use.

b. The following are examples of points to be considered when determining the similarity of contract contents.

(a) Lease type

(b) Leased area

(c) Contract term and elapsed and remaining term

(d) Details of rents based on the giving and receiving of a lump-sum payment

(e) Period of rent calculation and method of payment thereof

(f) Matters relating to repairs and changes in the current status

(g) The extent to which the property is to be leased, etc. and the method of use

(ii) Comparison of area-specific factors and property-specific factors

In comparing area-specific factors when determining rent, it is necessary to keep in mind that the scope and disparity between the areas for determining value and areas for determining rent are different due to the existence of rent-specific value influence factors, etc.

In comparing property-specific factors when determining the rent, it is necessary to take into account the details of the contract, property-specific factors concerning the land and building, etc.

VI. General Standards Chapter 8: Appraisal Procedures

1. Identification of client, parties for submission, and conflict of interests, etc.

- (1) Where the appraisal report is submitted to a party other than the client, the party to whom the report is submitted, and where the appraisal value is disclosed to a party other than the client, the party to whom the appraisal value is disclosed.

When an appraisal report is submitted to parties other than the client, it is not necessary to identify the parties to whom the appraisal report is to be submitted, and when an appraisal value is disclosed to parties other than the client, it is not necessary to identify the parties to whom the appraisal report is to be disclosed, depending on the purpose of the request. It is sufficient to identify the intended use and the attributes of the parties to whom the appraisal report is to be submitted. For this reason, it should be noted that even in cases where the specific individual name, etc. is not clear, it is necessary to ascertain information that contributes to ascertaining the intended use.

- (2) Conflicts of interest of Appraisers and appraisal companies

(i) Appraisers involved

Appraisers involved means all Appraisers involved in the appraisal of the relevant real estate, which shall include Appraisers involved in the appraisal of the relevant real estate under subcontract to the appraisal company for all or a part of the appraisal works.

(ii) Appraisal companies involved

Appraisal companies involved means all appraisal companies who engage Appraisers to value the relevant real estate.

(iii) Relationship between the client and the Appraisers and appraisal companies involved

Details which should be clarified regarding special relationships between the client and Appraisers and appraisal companies involved, shall, at a minimum, be as follows. However, in addition to the purpose, the client, and the parties for submission, any other necessary special relationships shall also be clarified in light of the magnitude of the impact on the judgment of the relevant parties.

- a. The special financial relationship between the client and the Appraisers involved that should be clarified is the relationship in

- cases where the Appraiser holds 20% or more of the client's voting rights or where there is a financial relationship equivalent to or greater than this, and in these cases, the details to be clarified shall be the ratio of voting rights and other matters that led to the relationship.
- b. The special personal relationship between the client and the Appraiser involved that should be clarified is the relationship in which the client or a person representing the client is the Appraiser or a relationship in which there is a personal relationship equivalent to or greater than this, and in these cases, the content that should be clarified is the reason why this relationship had come about.
 - c. The special financial relationship between the client and the appraisal firm (meaning the appraisal company stipulated in (ii).; the same shall apply hereinafter) that should be clarified is a relationship in which either the client or the appraisal company is a subsidiary or affiliate (meaning a subsidiary or an affiliate as defined in the principles of consolidated financial statements) of the other in the previous fiscal year (or the two previous business years if financial statements have not been prepared; the same shall apply for e.) or a relationship in which there is a financial relationship equivalent to or greater than this. In these cases, the details that should be clarified are the investment ratio and other reasons for the relationship.
 - d. The special personal relationship between the client and the appraisal company involved that should be clarified is the relationship in which the client or a person representing the client is the appraisal company or representing the appraisal company, or a personal relationship equivalent to or greater than this, and in these cases, the content that should be clarified is the reason why this relationship had come about..
 - e. The special business relationship between the client and the appraisal company that should be clarified is cases where in the previous business year of the appraisal company, that the borrowing from the client accounts for more than half of the appraisal company's liabilities, or where the sales of the appraisal company from the client (including sales that are not appraisal services) exceeds half of the sales, or where the amount of transactions between the client and the appraisal company

exceeds half of the sales amount received by the appraisal company for appraisal services, or if there is another relationship of a similar or greater degree. In these cases, the details that should be clarified are the percentage of the relevant liabilities, sales or transaction amounts, and the reasons for the relevant relationship.

- (iv) Relationship between the parties for submission and the Appraisers and appraisal companies involved

Provision of (iii) shall apply mutatis mutandis to the relationship between the parties for submission to be identified and the Appraiser and appraisal companies involved. In this case, the term “the client” shall be deemed to be replaced with “the parties for submission” and the term “said client” shall be deemed to be replaced with “said parties for submission.”

2. Planning of appraisal procedures

In planning for appraisal procedures, in addition to the matters specified in Sections 1 and 2 of Chapter 8 of the General Standards, the following matters shall be clearly confirmed with the client. The matters confirmed shall be reflected in the appraisal procedure, and in the event of any change in the matters, the appraisal procedure shall be revised.

- (1) The scope of the on-site inspection of the subject property (including whether or not an internal inspection is conducted).
- (2) Whether or not the results of surveys by other experts should be utilized
- (3) Other matters necessary for the planning of the appraisal procedure

3. Confirmation of the subject property

- (1) Confirmation of the physical state of subject property

In confirming the subject property, an on-site inspection, including an internal inspection, shall be conducted in principle.

In the case of a revaluation of the same property, if the Appraiser has conducted an on-site inspection including an internal inspection by himself/herself in the past, and if it is objectively recognized that there has been no significant change in the property-specific factors of the property compared to the date of value of the most recently conducted appraisal, then all or part of the internal inspection may be omitted.

(2) Confirmation of the state of interests

The following items shall be confirmed in principle when confirming the state of interests pertaining to a lease contract, etc.

- (i) Purpose of the contract
- (ii) Contracting parties
- (iii) Contract term
- (iv) Contracted quantity
- (v) Monthly rent paid
- (vi) Availability of lump sum payment and its details
- (vii) Covenants pertaining to lease terms, etc.

4. Review of documents and analysis of value influence factors

(1) When a reasonable estimate can be made within the scope of the Appraiser's research and analysis capabilities

Cases in which a reasonable estimate can be made within the scope of the Appraiser's research and analysis capabilities means cases in which there are similar cases comparable to the subject property with respect to certain factors, and in which it is recognized that the degree of depreciation due to the existence of such factors can be reflected in the appraisal value by objectively predicting such depreciation.

(2) When it is possible to conduct appraisal excluding from value influence factors

When the cause or causal relationship of a matter that is said to have an effect on value is not clear from general social conventions or scientific knowledge, or when the existence or non-existence of the matter cannot even be confirmed through ordinary investigation by the Appraiser, and when the matter is judged not to have a significant effect on the value of the subject property, the Appraiser may exclude the matter from the list of value influence factors when conducting the appraisal.

In addition, when an appraisal is performed by setting conditions to the scope of investigation, the appraisal may exclude the value influence factors under the condition.

5. Application of appraisal approaches

The matters necessary for the application of appraisal approaches corresponding to use

and interest category of subject property, the type of rent, and the characteristics of the market, etc., are set forth in each chapter of Specific Standards, as well as in the guidelines established by the association of real estate Appraisers (guidelines that specifically describe the application of appraisal approaches, and which have been agreed upon by the said association after consultation with the Ministry of Land, Infrastructure, Transport and Tourism).

In cases where a single appraisal approach is applied that appropriately reflects the concepts of multiple appraisal approaches that appropriately reflect the characteristics of the market for the subject property as determined by the area analysis and property analysis, it may be deemed that multiple appraisal approaches are applied that are in line with appraisal approaches.

VII. General Standards Chapter 9: Appraisal Report

1. Confirmation of client, parties for submission, and conflict of interests, etc.

When the matters specified in Chapter 9, Section 2, IX through XI of the General Standards are included in the appraisal report, they shall be as specified in VI 1 (1) and (2) of these Guidance Notes.

2. Confirmation of subject property

(1) Confirmation method

With regard to the matters confirmed in accordance with Chapter 8 of the General Standards, the method of confirmation (written or oral, etc.) and the confirmation documents shall be described together with the matters in question, so that no doubts may arise at a later date.

(2) Site Inspection

If all or part of the site inspection is omitted when conducting a revaluation of the same property, describe the basis for determining that there has been no material change in the property-specific factors of the property.

3. Application of appraisal approaches

If the appraisal approaches specified in Chapters 1 to 3 of Specific Standards cannot be applied to the subject property based on the type and category of the subject property

and the type of rent, state the rationale for such in light of the results of the analysis of the subject property's market characteristics and other relevant factors.

VIII. Specific Standards Chapter 1: Appraisal of Real Estate Value

1. Building site

(1) Vacant land

Value to be estimated by development approach shall be obtained by deducting the amount of the building construction costs and the usual incidental costs or the amount of the land development costs and the usual incidental costs that the client should directly bear discounted to the date of value, from the amount of the total sales price of condominiums, etc. or residential land intended for subdivision discounted to the date of value.

In this case, the land value for the site for condominium, etc., or for building site assuming subdivision will vary depending on the permitted use and floor area ratio, etc., as stipulated by law. Therefore, it is necessary to formulate a business implementation plan that takes into account the shape of the land, its location in relation to roads, etc., as well as a development plan for the building, including the general design and layout, etc., that conforms to the Building Standards Act, etc., for the site for condominium, etc., and a development plan for the size and layout, etc., of the building site assuming subdivision.

The basic equation of the development approach is as follows.

$$P = \frac{S}{(1+r)^{n_1}} - \frac{B}{(1+r)^{n_2}} - \frac{M}{(1+r)^{n_3}}$$

P: Indicative value applying development approach

S: Total sales price

B: Building construction cost or land development cost

M: Incidental costs

r : Return on invested capital

n1: Period from date of value to date of sales

n2: Period from the date of value to the time of payment of the building cost

n3: Period from the date of value to the time of payment of incidental expenses

(2) Land portion of a building and its site

There are two main methods of allocating the amount attributable to the site based on the composite property value, which must be applied appropriately according to the characteristics of the subject property.

(i) Percentage method

The percentage method is a method in which the composite property value is multiplied by the composition ratio of the site, in cases where it is possible to determine the composition ratio of the site within the composite property value.

(ii) Deduction method

The deduction method is a method of determining the value of buildings and other structures by deducting the value of buildings and other structures from the composite property value, in cases where the value of buildings and other structures under the status of composite property can be directly determined.

(3) Leasehold interest in land and leased fee interest in land

The following items should be considered when conducting appraisal for leasehold interest in land and leased fee interest in land.

(i) Although the leasehold alone is not the subject of a transaction, it may become the subject of a transaction accompanying a building transaction, and the value of the leasehold may become apparent when it is integrated with the building on the leased land.

(ii) Lump-sum payments made by a land lessee to a land lessor in connection with a building site lease contract, etc. are generally classified into (a) those that have the character of a deposit and are usually called a security deposit, (b) those that are regarded as consideration for the establishment of a leasehold right and are usually called key money, and (c) a lump-sum payment to obtain consent for the transfer, etc. of the leasehold right. In addition to these, in lease contracts for fixed-term land leases, there are those that have the character of advance payment of rent and are usually referred to as advance ground rent.

Whether or not these lump-sum payments constitute the value of the leasehold or the value of the leased fee interest, regardless of how those are called, must be determined individually by considering the nature of

the lump-sum payments, social practices, and other factors.

(iii) Items to be considered when conducting appraisal for fixed-term leasehold interest in land and leased fee interest in land are as follows:

(a) Fixed-term leasehold interest in land is not renewed upon expiration of the contract term.

(b) At the maturity of the contract term, the land may be returned to the lessor as vacant land or the building on the leasehold land may be transferred to the lessor.

(iv) In conducting appraisal for leasehold interest in land and leased fee interest in land, investment income shall be considered for lump-sum payments that have the character of deposits, and for lump-sum payments equivalent to advance rent, advance rent and investment income for each period shall be considered, respectively.

(4) Sectional superficiesies

The following are items to be considered when conducting appraisal for sectional superficiesies.

(i) Economic value based on the characteristics of the sectional superficiesies

In conducting appraisal for sectional superficiesies, it is necessary to pay particular attention to the economic value based on the following characteristics of sectional superficiesies.

a. The economic value of the land on which sectional superficiesies are established is the accumulation of the utility of the upper and lower spaces generated based on the hierarchy, etc. pertaining to the highest and best use of the said established land. Therefore, the economic value of sectional superficiesies is understood as a percentage of the economic value of the entire land for which the sectional superficiesies are established, focusing on the functional relationship with the utility of the entire land.

b. Sectional superficiesies are rights established for the purpose of installing a structure in a part of the basement or space of another person's land, and the economic value is specified by the structure, use, purpose of use, and period for which the rights are established.

(ii) Value indicated by sales comparison approach based on comparables of sectional superficiesies establishments

Value indicated by sales comparison approach based on comparables of sectional superficies establishments shall be determined by collecting comparables of the establishment of sectional superficies in subject neighborhood area and similar areas within the same supply and demand area, etc., selecting appropriate comparables, making adjustments for circumstances and time periods as necessary, and comparing value obtained by comparing area-specific factors and property-specific factors. In applying this method, particular attention shall be paid to the followings.

- a. The economic value of sectional superficies pertaining to the land on which the sectional superficies is established often includes the economic value of restrictions on the use of other space necessary for the preservation of the structure pertaining to said sectional superficies, and therefore the details of the establishment cases, such as the form and establishment period, should be precisely understood.
- b. The rate of change to be adopted for the time adjustment may be the rate of change of land in the zoning district in which the subject property is located or in a similar district that is recognized to have undergone a value fluctuation process similar to that of the said area.
- c. In comparing area-specific factors and property-specific factors, the following factors specific to sectional superficies should be taken into consideration.
 - (a) With regard to area-specific factors, it is necessary to consider the balance not only with area-specific factors in the subject neighborhood area, but also with similar areas where other properties exist, which generally contribute to the utility of the said sectional superficies. (For example, in the case of a sectional superficies on a subway, they are often found over a wide area, such as a contiguous group of land.)
 - (b) With regard to property-specific factors, the three-dimensional and planar location, scale, shape, etc. of the underground or space portion pertaining to the sectional superficies are particularly important, and it is necessary to determine the state of planar and three-dimensional division in relation to the entire land with sectional superficies and

consider the degree of influence thereof.

- (iii) Value obtained by the percentage of sectional superficies based on comparables of establishment of sectional superficies, etc.

The value shall be determined by collecting comparables of the establishment of similar types of sectional superficies in subject neighborhood area and similar areas within the same supply and demand area etc., selecting appropriate comparables, and calculating the ratio of the value of the sectional superficies at the time of establishment or transfer to the value of the vacant land on which the sectional superficies is established, and then determining the appropriate ratio by comprehensively comparing and considering the above, and then multiplying the ratio to the vacant land value as of the date of value on which the sectional superficies is established. In applying this method, particular attention should be paid to the items listed in c. of (ii) above.

- (iv) Value indicated by income approach determined in accordance with the land residual method

Value indicated by income approach obtained by applying the land residual method shall be determined by capitalizing the difference between net cash flow attributable to the land obtained by assuming the highest and best use of the land as if the establishment of sectional superficies had not been in place, and the net cash flow attributable to the land obtained by assuming the highest and best use of the land after the establishment of the sectional superficies, and then making any necessary adjustments based on the terms of the contract for the said sectional superficies.

- (v) Value obtained by the three-dimensional utilization ratio of the sectional superficies

The value obtained by multiplying volume utilization ratio of sectional superficies shall be determined by multiplying the ratio to the sectional superficies based on the highest and best use of the vacant land, making adjustments based on the content of the contract for the sectional superficies, etc. (Volume utilization ratio is the total ratio of economic value of the said sectional superficies based on the highest and best use of the whole vacant land and economic value equivalent in maintaining the utility of the sectional superficies by restricting the use of other spaces.)

In applying this method, particular attention should be paid to the items listed in c. of (ii) above.

(5) Appraisal in cases such as where soil contamination is known to exist in the subject property

For real estate where soil contamination is known to exist, in principle, the distribution of contamination and the costs required for measures such as removal of contamination shall be ascertained and appraised by utilizing the results of surveys, etc. conducted by other experts. However, even in such a case, if certain requirements for setting conditions are met as stipulated in Chapter 5, Section 1 of the General Standards and this Guidance Notes III, the appraisal may be conducted with the consent of the client, setting conditions on the assumption that measures such as removal of contamination will be taken, or setting conditions such as the scope of the survey. In addition, when it is recognized that an objective estimation can be made as stipulated in Chapter 8, Section 6 of the General Standards and this Guidance Notes VI, an appraisal may be conducted by estimating the degree of impact on value due to the existence of soil contamination. It should be noted that even after measures such as removal of contamination have been taken, there may be cases where the impact on value due to psychological aversion, etc. must be considered.

2. Building and its site

(1) Deleted

(2) Condominium unit and its site

In confirming condominium unit and its site, physical confirmation and confirmation of the state of interest shall be conducted based on the certificate of registered matters, building plans (if more detailed plans are required, design drawings, etc.), management agreement, taxation registry, surveyed map, etc.

In addition, the main items to be considered when confirming are as follows.

(i) Exclusive area

- a. Location, shape, size, structure and use of the entire building
- b. Location, shape, size and use of the exclusive area in a whole building
- c. Scope of annexes to the building pertaining to the exclusive area

(ii) Common area

- a. Scope of common area and co-ownership interests

- b. Common area belonging only to some condominium owners
- (iii) Site for Building
 - a. Location, shape, and size of the site
 - b. The state of interest related to the site
 - c. The extent of the covenanted site for the whole building in which the subject property is located
 - d. Co-ownership interests in the site
- (iv) Administrative expenses, etc.
Amount of management fees and reserve for repairs

3. Building

The method of allocating the amount attributable to the building based on the composite property value shall be the same as the method described in “1. (2) Land portion of a building and its site”.

IX. Specific Standards Chapter 2: Rent Appraisal

1. Building site

The following are matters to be kept in mind when determining market rent under a new lease for building site.

- (1) In cases where the highest and best use cannot be ensured due to restrictions on use imposed by the lessor or other circumstances in the lease or other contract, the base value in determining the rent indicated by summation approach shall be determined by taking into account the reduction in economic value in proportion to the degree to which the highest and best use is restricted.
In determining the anticipated yield, it is necessary to consider the degree to which rents lag behind changes in the level of land value and the degree of correlation with land value.
- (2) Rent indicated by comparison approach must be based on new leases, etc. executed at a point in time close to the date of value, and must be similar in terms of location and other value influence factors.
- (3) Rent indicated by the rental data comparison approach based on a method equivalent to the allocation method refers to the rent obtained by deducting

the amount equivalent to the actual rent for the portion other than the building site from the actual rent of lease comparables with similar contractual contents of composite properties including the building site.

When determining the market rent for the building site, the similarity of the contractual contents of the lease and the degree of the highest and best use of the site should be taken into consideration when selecting comparables.

- (4) In applying the rental business analysis method, the net cash flow attributable to the land shall be determined based on the assumption of a planned building based on the terms of a new land lease to be concluded.

2. Building and its site

In the case of a retail building, the lessor may only construct the frame and some of the building facilities (skeleton lease), and the lessee may construct the interior and exterior and some of the building facilities. Therefore, when determining the base value for calculating the rent indicated by summation approach and selecting comparables for calculating the rent indicated by the rental data comparison approach, this should be taken into account.

X. Specific Standards Chapter 3: Appraisal of Real Estate Value for Securitization

1. Basic stance on appraisal of a property for securitization

It should be noted that the appraisal of a property for securitization stipulated in Chapter 3, Section 1 of the Specific Standards must be conducted in accordance with Chapter 3 of the Specific Standards, even when conducting revaluation of a property previously appraised.

2. Planning of appraisal procedures

- (1) Although the confirmation in the planning appraisal procedure may be performed by a person other than the Appraiser responsible for conducting the appraisal of the subject property, it should be noted that the said Appraiser is responsible for this as part of the appraisal.
- (2) If, in confirming the planning of the appraisal procedure, negotiations were

conducted with the client regarding the submission of documents for conducting the appraisal appropriately, the circumstances of such negotiations must be recorded as confirmation items. The record of the confirmation items is to be included as an appendix to the appraisal report, but is not required to be attached to the appraisal report. However, it should be noted that the record must be kept as a document specified in Article 38, Paragraph 2 of the Enforcement Regulations of the Law Concerning Real Estate Appraisal.

- (3) Note that in the case of receiving an engineering report and documents necessary for applying the DCF method, etc. on multiple occasions, and in the case of conducting site inspections on multiple occasions, confirmation and recording are required at each stage.
- (4) Although Chapter 3, Section 3. III. of the Specific Standards provides that the client's relationship with securitization-related parties shall be described, the existence and details of an Appraiser's conflict of interest in the subject property or the existence of any affinity or special interest with any person having an interest in the subject property shall be described in accordance with Chapter 9, Section 2 of the General Standards.

3. Investigation of property-specific factors of a property for securitization

In investigating the property-specific factors of a property for securitization, the following items should be taken into consideration:

- (1) With respect to physical confirmation in the case of revaluation of the same property for securitization, all or part of the internal inspection may be omitted as stipulated in VI 3. (1) of these Guidance Notes. In this case, it is also necessary to confirm that there have been no significant changes in the highly specialized property-specific factors listed in the table in Section 3-4-III (3) of the Specific Standards, compared to the date of value of the most recent appraisal, and in addition to the items to be included in the appraisal report regarding the site inspection as stipulated in Section 3-4-II of the Specific Standards, the reason for determining that there have been no significant changes in the property-specific factors of the subject property compared to the date of value of the most recent appraisal must be stated.
- (2) It should be noted that when utilizing an engineering report, the Appraiser is responsible for independently making a decision on whether or not to utilize

the report. It should also be noted that in judging the appropriateness and accuracy of the contents of the engineering report, efforts should be made to verify the report based on the opinions of other experts such as architects, etc., as necessary.

In some cases, this can be addressed by utilizing existing engineering reports, while in other cases, even if the engineering reports are formally itemized, they may be inadequate for appraisal purposes and require investigation by the Appraiser.

- (3) In performing physical and legal confirmation of the subject property necessary for appraisal, it should be noted that the contents listed in the table in Chapter 3, Section 4, III (3) and the contents listed in Appendix 1 in the Specific Standards are the minimum necessary, and additional items and contents must be added and confirmed as necessary.
- (4) It is necessary to obtain the full engineering report from the client whenever possible, and to seek opportunities to receive explanations directly from the author of the engineering report.
- (5) It should be noted that in many cases, the preparation of an engineering report is outsourced, in which case the preparer of the engineering report refers to the party entrusted with the study. In such cases, when the preparer of the engineering report is mentioned in the appraisal report, the name of the party entrusted with the study should also be mentioned.

4. Application of DCF method

In applying the DCF method, the following matters should be noted.

- (1) In explaining income and expense items and their definitions to the client, due consideration must be given to improve the accuracy of the data provided by the client to the Appraiser by showing the correspondence between income and expense items and data related to real estate cash management, such as specific cost breakdowns for each item.
- (2) In the income and expense items, securitization-related expenses such as trust fees, administrative expenses related to special purpose companies, investment corporations, funds, etc., and asset management fees (excluding expenses related to individual properties) should not be included. It should be noted that “net cash flow” is to be determined as before depreciation, and therefore depreciation

should not be recorded. It should also be noted that the breakdown of “net operating income” as set forth in the table in Section II (1) of Chapter 3, Section 5 of the Specified Standards and the so-called “NOI (Net Operating Income)” seen in general disclosure documents for property for securitization may differ.

- (3) With regard to the calculation of “investment income on lump sum” and “capital expenditure,” which constitute the difference between “net operating income” and “net cash flow” among the revenue and expense items in the table in Chapter 3, Section 5, II (1) of the Specified Standards, the concept of yield on “investment income on lump sum” shall be attached, and with regard to the classification of “capital expenditure” and “repair cost,” sufficient consideration shall be given to the consistency with the arrangement for tax purposes, etc.
- (4) Income and expense items should be used in the same way in the direct capitalization method applied as a verification of the DCF method.

Supplementary Provisions

Supplementary Provisions (Amended as of July 3, 2002)

These Operational Guidance Notes for Real Estate Appraisal Standards shall come into effect as of January 1, 2003.

Supplementary Provisions (Partially amended on April 2, 2007)

1. These Guidance Notes shall come into effect as of July 1, 2007.
2. An assistant real estate appraiser shall be deemed to be the Appraiser with respect to the application of the amended Guidance Notes.

Supplementary Provisions (Partially amended on August 28, 2009)

This amendment shall come into effect on January 1, 2010, and the amended Operational Guidance Notes for Real Estate Appraisal Standards shall apply to appraisals for which contracts are concluded on and after that date.

Supplementary Provisions (Partially amended on March 31, 2010)

This amendment shall come into effect as from the date of enforcement (April 1, 2010) of the Law for Partial Amendment to the Soil Contamination Countermeasures Law (Law No. 23 of 2009).

Supplementary Provisions (Partially amended on May 1, 2014)

This amendment shall come into effect on November 1, 2014, and the amended Operational Guidance Notes for Real Estate Appraisal Standards shall apply to appraisals for which contracts are entered into on or after that date.

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本書の無断転載を固く禁じます。