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## **Can Condominiums Be Maintained in the Future?**

**— Need for creating the rules for supplying, maintaining and demolishing  
condominiums that are appropriate in the age of shrinking population —**

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### **<Summary>**

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- ◆ As Japan faces further population decline in the future, the problem of vacant houses is becoming more serious. As a result, if the government decides to forcibly demolish a vacant house, the cost, which should be borne by the house's owners, would end up being borne by the whole society. In order to restrain the risk, it is necessary to establish certain rules concerning the maintenance and demolition of houses. In this paper, I will focus on condominiums ("mansions" in Japanese), namely multi-apartment buildings in which each residential unit can be legally owned separately, which could cause the biggest problems, and examine how to maintain and dismantle them in the era of declining population.
- ◆ Typically, condominiums are managed autonomously by the management association of all unit owners based on the resolutions of the general meetings. Every month each unit owner bears the fees for the reserve fund used to repair deteriorated buildings and facilities, in addition to management fees for the purpose of condominium management and operation.
- ◆ The legal system as it pertains to condominiums is based on the Building Unit Ownership Act of 1962. The Act clarified the definition of unit ownership and allowed broad autonomy in management and operation. Since then, the Act has been revised and additional legislation has been promoted to improve management and operation, relax the requirements for reconstruction and diversify the methods thereof.
- ◆ At the moment, condominiums are facing challenges posed by "the dual aging", namely

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the aging of buildings and the aging of unit owners, and there is a risk that more and more condominiums fall into management failure and then being abandoned. Thus, the Japanese government is working to revise the law to strengthen the administrative role in management and operation, ease the requirements for the land sale system, and establish a system to divide the land. Some local governments have introduced their own systems, such as notification systems and information disclosure systems.

- ◆ These government efforts can be effective, but in view of the future declining population, further measures are needed. Even in urban areas where 60 to 70% of Japan's condominiums are located, the population is rapidly decreasing. If this situation continues, the government will be forced to demolish many condominiums that are out of control or abandoned.
- ◆ Given the magnitude when such risk materializes, we can find out the crucial problem in the current condominium-related legal system. It is that while the “rights” such as unit ownership and private autonomy are recognized, there are few social “responsibilities” and “duties” regarding maintenance, management and demolition imposed on the unit owners or management associations, which should be inextricably linked with such rights. In the future, central and local governments will be required to: 1) stipulate the obligations and responsibilities of the parties concerned with regard to proper management, etc. in the Building Unit Ownership Act; 2) establish notification and information disclosure systems at the national level to grasp the current situation of condominium management; 3) stipulate the details of the obligations of the maintenance, management; 4) establish a framework for the local governments to have active involvements in condominium renewal; and 5) make the method of condominium management and renewal more flexible and diverse in line with reality.
- ◆ Besides the points mentioned above, it is also important to deepen discussions on how to supply housing as a whole, including condominiums. It is necessary to curb the supply of new housing, for example by setting targets for the total amount of housing stock or introducing development regulation.

- This is a English version of “マンションはこれからも維持できるのか—人口減少時代にふさわしい供給・維持・解体のルール構築を” in JRI Research Report (The original version is available at <https://www.jri.co.jp/MediaLibrary/file/report/researchreport/pdf/11736.pdf>)

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## 1. Introduction

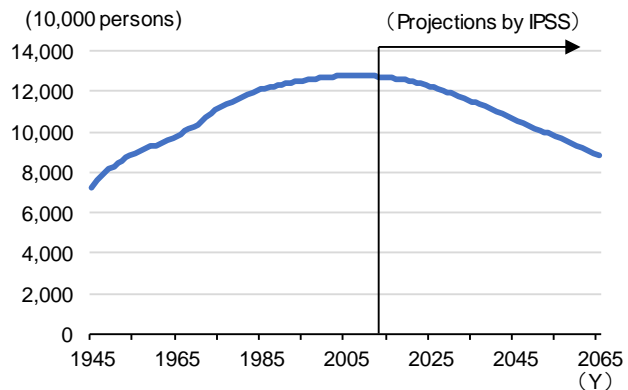
### (1) Housing stock problem in the era of declining population

Japan is now entering an era of rapid population decline. According to the National Institute of Population and Social Security Research (IPSS), it is estimated that the population of Japan will decrease from 126 million in 2019 to 111 million by 2040, and to 93 million by 2060 (Figure 1).

As a result of this population decline, total demand for housing is expected to decline, and even disappear in some places. According to the Ministry of Land, Infrastructure, Transport and Tourism, it is estimated that between 2015 and 2050, more than half of areas in Japan will see their population halved or become uninhabited (Figure 2).

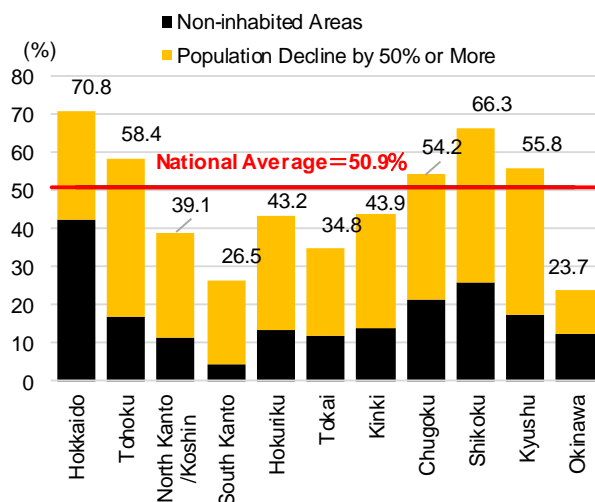
The effects of the declining population have already become apparent in the form of an increase in the number of vacant houses<sup>1</sup>. An unoccupied house that degrades without adequate management in place will not only cause deterioration of the sanitary environment, landscape, and public safety, but also poses a risk of building collapse and falling external walls and handrails. In response to this situation, the government enacted the “Act on Special Measures to Advance Municipalities’ Measures for Vacant houses” in 2014, which allowed active involvement of the government and the eventual forced demolition of vacant homes<sup>2</sup>. However, these measures require a certain level of cost, and

Figure 1. Estimates of Japan’s Population



Source: Prepared by The Japan Research Institute based on “Population Estimates” by the Statistics Bureau, Ministry of Internal Affairs and Communications and “Population Projections for Japan” by the National Institute of Population and Social Security Research (IPSS)  
Note: IPSS’ projections are based on medium-fertility/medium-mortality assumptions.

Figure 2. Ratio of Areas That Will Become Uninhabited and See Population to be Halved in 2050 (1 km Mesh, Compared with Inhabited Area as of 2015)



Source: Prepared by The Japan Research Institute based on “National Land Numerical Information” (population projections for 1 km mesh) by the Ministry of Land, Infrastructure, Transport and Tourism

<sup>1</sup> The number of vacant houses has consistently increased since the commencement of the survey, reaching 8490,000 in 2018 (“Housing and Land Survey” by the Ministry of Internal Affairs and Communications).

<sup>2</sup> During the period between FY2015 until now (October 1, 2019), 24,000 houses were identified as vacant houses with a high risk of collapse, etc. (designated vacant houses), of which 7,552 were disposed of (including 196 houses that were forcibly demolished), and 16,333 remained (“Enforcement Status of the Act on Special Measures to Advance Municipalities’ Measures for Vacant Houses (April 8, 2020)” by the Ministry of Land, Infrastructure, Transport and Tourism. (<https://www.mlit.go.jp/common/001339641.pdf>)).

ultimately, all of society will bear this cost through the appropriation of tax. In a capitalist society, house owners themselves should bear the costs of managing and dismantling their own houses; this responsibility cannot be passed on to society.

## **(2) Issues to be discussed in this paper**

In the past, when the population was growing steadily, it was natural that the demand for housing continued to increase. Housing could be provided relatively freely via private businesses if only it met the requirements stipulated in the regulations of land use and city planning as well as the Building Standards Act, etc., and buyers (owners) could use and manage the housing themselves without having difficulty finding new buyers. When demolishing or disposing of houses, current owners (or subsequent owners) were assumed to bear the cost in principle, and there was no such need to stipulate administrative rules on who should bear such responsibility.

However, in the era of declining population, such “assumptions” will no longer work. There have been many cases in which houses were abandoned and left vacant because they ceased being used by their owners, and finding another buyer was difficult. To cope with such a situation, it will be necessary to establish certain rules concerning the maintenance and demolition of housing stock.

In this paper, I will focus on condominiums in particular and discuss the rules for their maintenance and demolition. Both condominiums and detached houses have the same problem in that the decrease in the population will put increasing pressure on the number of vacant rooms and houses, forcing the government to take action. However, in the case of condominiums, multiple unit owners possess ownership of portions of a building, and it is therefore necessary to make decisions based on their collective agreement. It is much more difficult to carry out appropriate maintenance and management according to the needs of the times, and in some cases, to make decisions on actions such as reconstruction or demolition among a large number of unit owners compared to the case of detached houses. In addition, the cost of demolishing a condominium is considerably higher than that of a single-family home should the government be forced to do so due to management failure. From these points of view, the impact of vacant condominiums on society is much greater than that of detached houses.

What should be done to ensure that condominiums will continue to be properly maintained and managed by unit owners and that they will assume responsibility for the condominiums until the end, while maintaining the assumption that housing needs will eventually diminish as the population declines? This paper will examine the direction that should be pursued in order to prevent society and future generations from footing the bill.

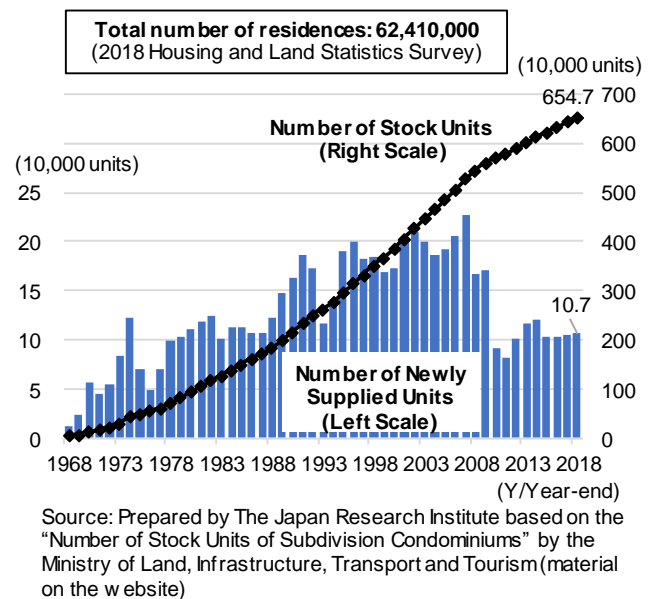
## **2. Current situation surrounding condominiums**

First, let's look at the penetration level and current state of management and operation of condominiums in Japan.

### **(1) Proliferation of condominiums**

Condominiums, namely multi-apartment buildings in which each residential unit can be legally owned separately are now a common form of residence in Japan. The widespread use of condominiums started in earnest around 1970, and their construction continued to increase until before the collapse of Lehman Brothers (Figure 3). Since then, the supply of new condominiums has dropped sharply, and currently, the new supply has been around 100,000 units every year. As of the end of 2018, the number of units in stock stood at 6.54 million, accounting for 10% of the total number of residences in Japan and 20% of owner-occupied residences. The percentage of people living in condominiums is particularly high in urban cities. For example, in Tokyo, where nearly 30% of the nation's condominiums are located, about one in four people live in condominiums.

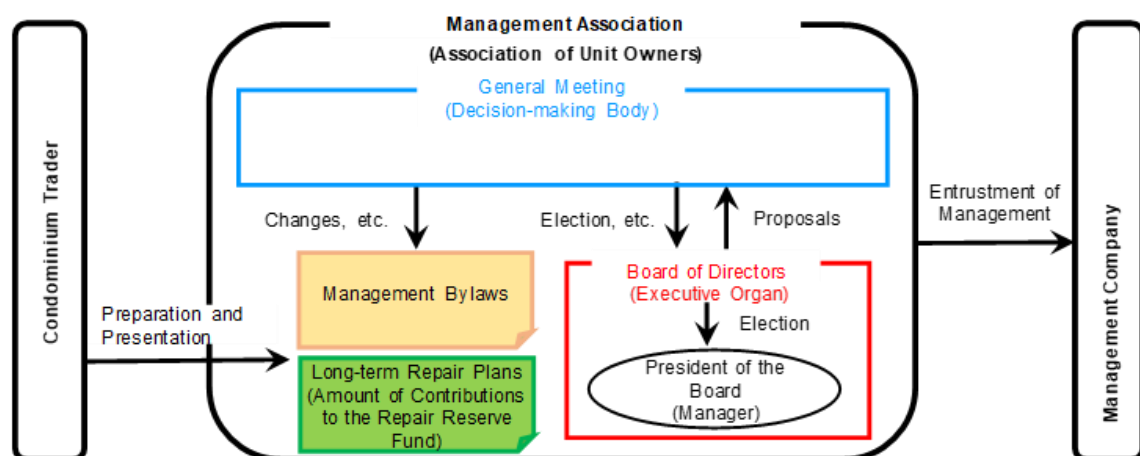
Figure 3. Changes in the New Supply of Condominium Units and Number of Stock Units



## (2) Actual management and operation of condominiums

In general, a condominium management association exists, whose members are all unit owners (Figure 4), and management and operation of condominiums are carried out autonomously based on resolutions from general meetings, etc. At the management association general meeting, resolutions are made on important issues such as the creation and amendment of management rules ("management bylaws") and "long-term repair plans", which will be described later. The board of directors is responsible for the execution of operations based on management bylaws and general meeting resolutions, and its members are elected from among unit owners.

Figure 4. General Condominium Management System



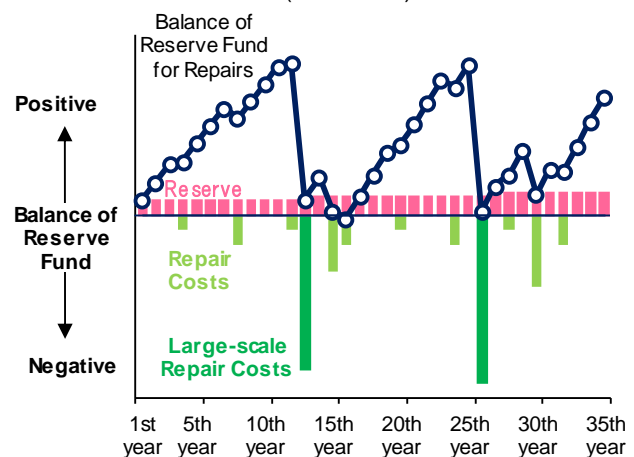
Source: Prepared by The Japan Research Institute, Limited based on Figure 2 of Kuniki Kamano [2019], etc.

The president of the board, who is both the representative of the board of directors and the representative of the unit owners, has the right and bears the obligation to put the meeting resolutions in practice and to engage in the acts specified in the bylaws. However, in many cases, most of the work is actually entrusted to a management company.

Each unit owner shares the cost of management and operation. In addition to paying the monthly management fees as part of expenses for daily management, unit owners must pay fees for a reserve fund for the repair of buildings and facilities that deteriorate over time (“contributions to the repair reserve fund”). The repair period differs depending on the part of the building itself and the type of equipment used; large-scale work (“large-scale repair work”) is required every 10+ years (Figure 5). Therefore, most management associations have their own repair plans (“long-term repair plan”), which are usually prepared by condominium sales companies in advance and the amount of the contributions to the repair reserve fund is set as part of the repair plan.

Although the market prices for management fees, contributions to the repair reserve fund, and large-scale repair costs vary widely among condominiums, the average annual burden per unit for management fees and contributions to the repair reserve fund is 195,000 yen and 161,000 yen, respectively (Table 1). In addition, when the cost for each large-scale repair work is broken down into individual units, the first repair cost is 1,091,000 yen per unit, the second repair cost is 1,220,000 million yen per unit, and the third repair cost is 994,000 yen per unit.

Figure 5. Cycle of Condominium Repair Costs (Illustration)



Source: Prepared by The Japan Research Institute based on the “FY2018 Comprehensive Condominium Survey” by the Ministry of Land, Infrastructure, Transport and Tourism, and other materials

Table 1. Management Fees, Contributions to the Repair Reserve Fund and Large-scale Repair Costs (average)

	Management Fees		Contributions to the Repair Reserve Fund		Large-scale Repair Costs		
	(Monthly)	(Yearly)	(Monthly)	(Yearly)	First Time	Second Time	Third Time
Per Square Meter (Yen)	147	1,764	164	1,968	13,096	14,635	11,931
Per unit (10,000 Yen)	1.1	13.2	1.2	14.8	109.1	122.0	99.4

Source: Prepared by The Japan Research Institute based on “FY2018 Comprehensive Condominium Survey” by the Ministry of Land, Infrastructure, Transport and Tourism, and other materials

Note: The data per square meter shows management fees and contributions to the repair reserve fund per unit of exclusive area, and repair costs per unit of total floor area. The data per unit is calculated on the assumption that the ratio of the total exclusive area occupied by units to the total floor space of the condominium is 90%, and that the exclusive area per unit is 75 m<sup>2</sup>.



### 3. Condominium system and recent issues

Next, let's look at the legal system for condominiums, as well as recent issues and administrative efforts to address them.

#### (1) Legal system for condominiums

The legal system for condominiums is based on the “Act on Building Unit Ownership, etc.” (hereinafter, “Building Unit Ownership Act”) enacted in 1962. The Act is aimed at buildings, such as condominiums, that have multiple compartmentalized spaces and multiple owners within a single building, and clarifies the relationship of rights and stipulates the concept of joint management. Specifically, each room of a building is defined as an “exclusive element,” and the building frame, outer wall, entrance, staircase, corridor, elevator, etc. are defined as “common elements.” While each unit owner is entitled to dispose of exclusive elements independently (“unit ownership”), he is restricted to dispose of the common element freely. And, the management and operation of condominiums (excluding the exclusive element) is based on a resolution by the majority of the unit owners, and the management bylaws are determined by the unit owners themselves, thus allowing for wide autonomy in condominium management to unit owners.

Since the establishment of the Building Unit Ownership Act, the legal system for condominiums has been improved by amendments to it and additional legislation from the following two viewpoints: 1) management and operation of condominiums; and 2) change or renewal (in the sense of modifying the building structure). First, in terms of management and operation, the Building Unit Ownership Act was amended in 1983 to require the establishment of a management association in which all unit owners participate. In addition, in the “Act on Advancement of Proper Condominium Management” (hereinafter, “Proper Condominium Management Act”) enforced in 2001, a provision stating that “management associations and unit owners must strive for proper management” was included. The Act also required establishment of the “condominium manager system” to support both management associations and unit owners, as well as the development of “centers to advance proper condominium management.”

Next, in terms of changes and renewals, the 1983 amendment of the Building Unit Ownership Act relaxed the requirements for changes in common elements from the “consent of all unit owners” to the “consent of 3/4 or more of all unit owners” while incorporating new provisions to allow for “reconstruction” of the building with the consent of 4/5 or more of all unit owners rather than unanimous consent. In addition, the 2002 amendment of the said act stipulated that large-scale repair work that does not involve significant changes in the shape or utility of the building could be carried out with the consent of a majority of the unit owners. Furthermore, in the same year, the “Act on Facilitation of Reconstruction of Condominiums” (hereinafter, “Condominium Reconstruction Act”) was enforced, and the procedures following the resolution approval on reconstruction, which had not been specifically prescribed under the Building Unit Ownership Act, were clearly stipulated. Subsequently, as a result of the amendment of the Condominium Reconstruction Act in 2014, it became virtually possible to sell the whole condominium site with the consent of 4/5 or more of all unit owners only in the case of condominiums which are not earthquake resistant.



## (2) Recent challenges posed by the “dual aging” of buildings and unit owners

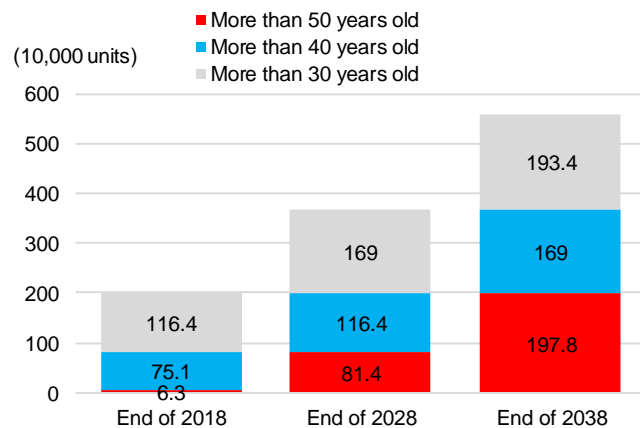
In recent years, condominiums have faced challenges posed by both the “aging of buildings” and the “aging of unit owners.”

First, looking at the aging of buildings, as mentioned earlier, the supply of condominiums has been increasing steadily since around 1970. Among condominiums built in the early years, however, there is an increase in the number of those that have been standing for more than 40 years. According to the Ministry of Land, Infrastructure, Transport and Tourism, looking at condominiums nationwide as of the end of 2018, 1,164,000 condominium units were more than 30 years old; 751,000 condominium units were more than 40 years old; and 63,000 condominium units were more than 50 years old. This trend of aging condominiums is expected to continue in the future (Figure 6).

Next, looking at a breakdown of the age demographic of condominium owners, while the percentage of owners in their 60s and 70s was about 25% of the total in FY1999, it rose to about 50% in FY2018, indicating that the age of condominium owners is increasing (Figure 7).

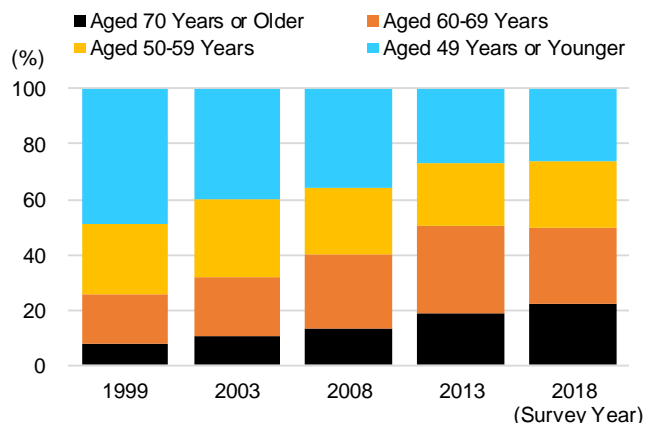
Both the aging of buildings and the aging of unit owners have a serious negative impact on the management and operation of condominiums (Figure 8). First, with the aging of condominiums, the ratio of vacant and rental units will increase. In other words, the number of “owners not living in their units” will increase. If condominium owners do not live in their own units, their sense of commitment will gradually fade, leading to a decline in the rate of participation in general meetings and a shortage of candidates for board members for management associations. In recent years, there has been an increase in the number of large-scale condominiums such as condo towers, and this is considered to be one of the factors that weaken this sense of commitment.

Figure 6. Projections for the Aging of Condominiums



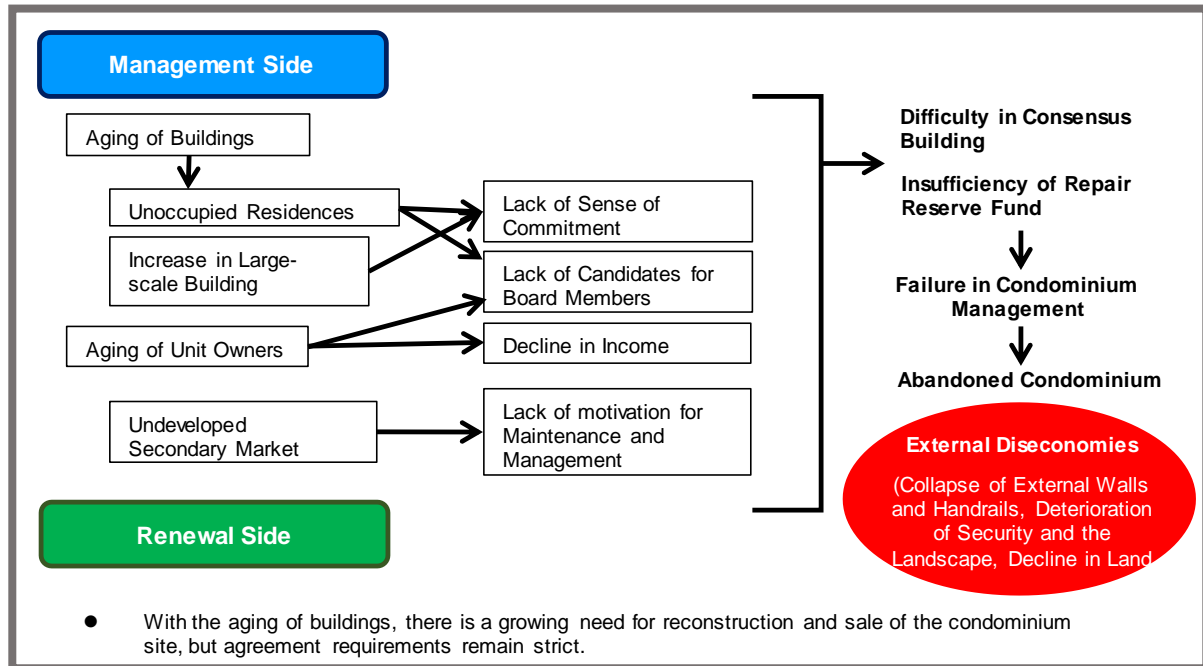
Source: Prepared by The Japan Research Institute based on the “Number of Subdivision Condominium Units More than 30, 40 and 50 Years Old” by the Ministry of Land, Infrastructure, Transport and Tourism (<https://www.mlit.go.jp/common/001290997.pdf>)

Figure 7. Breakdown of the Ages of Condominium Unit Owners



Source: Prepared by The Japan Research Institute based on the “FY2018 Comprehensive Condominium Survey” by the Ministry of Land, Infrastructure, Transport and Tourism  
Note: Age of householders; excluding “unknown” answers

Figure 8. Structure of Condominium-related Problems

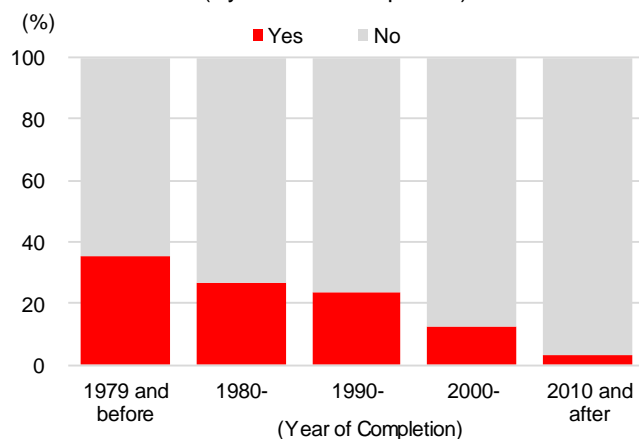


Source: Prepared by The Japan Research Institute, Limited

Next, regarding the aging of unit owners, “old age” is cited as the main reason for avoidance of becoming a board member of a management association<sup>3</sup>, which is directly linked to the shortage of management association board members. In addition, if income declines as unit owners age, it becomes difficult for them to pay monthly management fees and contributions to the repair reserve fund. In addition, in Japan, development of the secondary market for existing properties is behind that of other countries, and it is difficult for the value of assets to be properly evaluated. Therefore, it is difficult for owners to increase their motivation to properly maintain and manage their properties in order to improve the value of their assets.

As a result, it tends to be difficult for the management association to form an agreement, and arrears with regard to contributions to the repair reserve fund, etc. tend to occur. In fact, as the age of a building increases, so too does the delinquency rate for management fees and contributions to the repair reserve fund (Figure 9). The Ministry of Land, Infrastructure, Transport and Tourism has also pointed out, in the paper presented to the subcommittee of the condominium policies in February 2020, that

Figure 9. Non-payment of Management Fees and the Reserve Fund for Repairs (By Year of Completion)



Source: Prepared by The Japan Research Institute based on the “FY2018 Comprehensive Condominium Survey” by the Ministry of Land, Infrastructure, Transport and Tourism  
Note: Excluding “unknown” answers

<sup>3</sup> “FY2018 Comprehensive Condominium Survey” by the Ministry of Land, Infrastructure, Transport and Tourism (<https://www.mlit.go.jp/common/001287646.pdf>) (<https://www.mlit.go.jp/common/001287645.pdf>)

“about 40% of the condominiums built more than 40 years ago and about 20% of the condominiums built more than 30 years ago may not have been able to carry out timely and appropriate large-scale repair works.”

If this situation further deteriorates, it will be a practical problem to continue appropriate maintenance and management of condominiums, and eventually residents will disappear just like the loss of teeth in a comb over time. Such abandoned condominiums could cause, if not the collapse of buildings, external diseconomies such as the collapse of external walls and handrails, deterioration in security, sanitation and the surrounding landscape, and eventually a decline in land prices.

In fact, an abandoned condominium caused such a problem in Yasu City, Shiga Prefecture, and although those cases still remain rare in Japan, the city ended up executing an enforced demolition in January 2020. This building was a 48-year-old, three-story and steel-structured condominium with nine residential units. It cost about 100 million yen to demolish (of this, 30 to 40 million yen was spent to remove asbestos) but it is unclear how much of this cost can be made up for from the unit owners.

With the aging of condominiums, more management association will have to consider some “renewal” plans, such as reconstruction or land sale, but the hurdle of realizing such a plan remains high. At present, as mentioned earlier, the requirement for reconstruction is the consent of 4/5 or more of all unit owners and that for land sale is all unit owners’ consent in principle. In fact, only 244 condominiums (about 19,200 units) in total have been reconstructed throughout Japan as of April 2019<sup>4</sup>.

### **(3) Initiatives of the government**

In order to address these recent issues, the national government has already started to revise laws, and some local governments have taken the lead ahead of the national government.

First, the Ministry of Land, Infrastructure, Transport and Tourism has revised the Proper Condominium Management Act to expand the roles of central and local governments for advancement of proper condominium management. Specifically, the central government will take the lead in formulating the basic policies for proper condominium management, while the local governments will be responsible for preparing concrete plans, providing guidance and advice to management associations, and approving their individual management plans. The ministry has also amended the Condominium Reconstruction Act to ease the conditions regarding the sale of the whole land and one part of the land as means of condominium renewal. Specifically, the sale of the whole land will be allowed for condominiums, such as those with a risk of collapse of external walls, in addition to condominiums without earthquake resistance. Furthermore, the framework to sell one part of the land will be set up for condominium complexes (multiple buildings on a land) and the requirement is the consent of 4/5 or more of all unit owners. Bills to amend the two aforementioned acts have already been passed in the ordinary Diet session in 2020.

As for local governments, for example, the Tokyo Metropolitan Government made it mandatory to report the management status of aged condominiums by ordinance, and also made it possible to provide advice, support and guidance to management associations, etc. according to management status. In addition, the Tokyo

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<sup>4</sup> “Status of Condominium Reconstruction (as of April 1, 2019)” by the Ministry of Land, Infrastructure, Transport and Tourism (material on the website) (<https://www.mlit.go.jp/common/001290990.pdf>)

Metropolitan Government has started operating an excellent condominium registration and certification system with the purpose of certifying, registering, and publicizing condominiums with excellent performance and management.

The City of Kobe is also planning to establish an “information disclosure system” in addition to a notification system for management status, by enacting an ordinance. Under the information disclosure system, information on the financial condition of the management association, the history of large-scale repair work, and other important information in real estate transactions will be disclosed on the website.

#### **4. Condominium-related issues and required policies in the era of declining population**

Although such efforts by the government are commendable, they are insufficient in light of the fact that the population decline will accelerate and the risk of abandoned condominiums will increase further in the future. The future direction of the required response will be discussed below.

##### **(1) Increased risk of abandoned condominiums**

The rapid population decline in Japan is likely to begin in towns and villages for the time being, but will eventually spread to urban areas. In urban areas, the rate of population decline is expected to be smaller than in towns and villages, but many cities are expected to experience significant population declines. Of the 779 cities nationwide (including Tokyo’s wards), 733 (94%) are projected to experience population declines by 2045, with the average rate of decline exceeding 10% for ordinance-designated cities and 20% for other cities (Figure 10). In cities where the population is expected to decrease drastically, there are at least 3.7 million condominium units, accounting for 60 to 70% of the national total<sup>5</sup>. With the decrease in the population, there will be heightened pressure on these condominiums, leading to an increase in the number of vacant rooms and unit leasing. As a result, the number of unmanaged and abandoned condominiums will increase, posing a risk of a significant rise in forced demolitions by the government.

How much would it cost if the administration was forced to demolish decrepit, abandoned condominiums? The per unit cost is estimated to be about 2 to 3 million yen for a standard RC (reinforced concrete) structure building<sup>6</sup>. How can we see this figure? Table 2 shows the costs in 4 cases, the demolition and construction costs in a RC structure building and for reference those 2 costs in the wooden building with other conditions being equal. The cost of demolition is remarkably much lower than that of construction, though the demolition cost of a RC structure is about double of that of a wooden structure.

Comparing the per unit demolition cost (about 2 to 3 million yen) to repair-related costs, this amount is equivalent to at least two payments for large-scale repair work and 14 to 20 years’ worth of contributions to the repair reserve funds (Table 1).

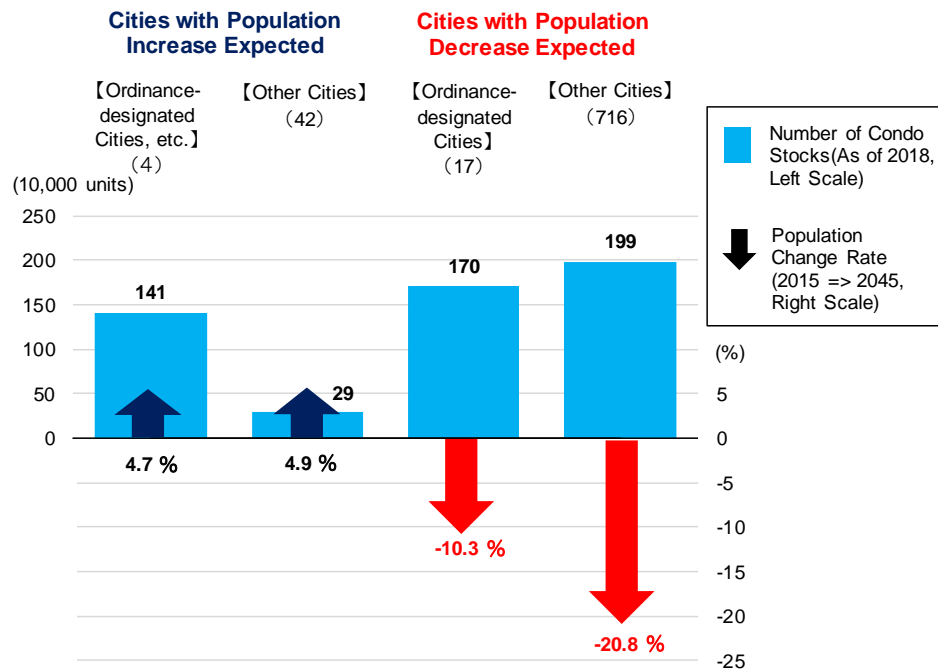
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<sup>5</sup> The figure of 3.7 million condominium units does not include vacant rooms; if included, the ratio will be around this level.

<sup>6</sup> Calculations are based on an average of 75 square meters of floor space, with reference to estimates of demolition work (8 cases) carried out in the Tokyo metropolitan area as stated in the Wooden Building Promotion Council [2017]. However, the rate of demolition regarding condo towers may differ significantly from the rate shown here because the degree of difficulty of demolition for such structures is high and such demolition has not yet been carried out in Japan.

In general, the total cost of demolishing a condominium, which is calculated by multiplying the per unit cost by the number of units, is much higher than that of a detached house, although it could be changed depending on the size of the buildings. In view of fairness and during severe fiscal conditions, it would not be easy to accept such a situation if condominium buildings in many parts of the country become decrepit, and the burden of demolition costs would be passed on to local governments, or ultimately other residents in the community in the form of a tax burden.

Figure 10. Number of Condominium Stocks in Urban Areas, and Population Change Rate



Source: Prepared by The Japan Research Institute based on the "FY2018 Housing and Land Statistics Survey" by the Ministry of Internal Affairs and Communications, and "Population Projections for Japan by Region" by the National Institute of Population and Social Security Research (IPSS)

Note 1: Excluding vacant units

Note 2: Figures in parenthesis indicate the number of applicable cities

Table 2. Demolition Costs and Construction Costs of RC Structure Building (Model Case)

【Outline of a Model Property】	
Usage: Nursery School	Structure: Two Stories Above Ground
Total Floor Area: 692 m <sup>2</sup>	Building area: 420 m <sup>2</sup>

	RC structure	Wooden
<b>Demolition Costs (10,000 Yen)</b>	<b>1,672</b>	<b>857</b>
<b>(Per Total Floor Area, Yen)</b>	<b>25,900</b>	<b>13,300</b>
<b>Construction Costs (10,000 Yen)</b>	<b>23,728</b>	<b>21,881</b>
<b>(Per Total Floor Area, Yen)</b>	<b>341,233</b>	<b>314,667</b>

Source: Prepared by The Japan Research Institute based on the Wooden Building Promotion Council [2017]

## (2) Required policy

In Japanese society with a declining population, there is a growing risk of condominium buildings becoming abandoned. The biggest reason for this is that while the current condominium-related legal system permits “rights” such as unit ownership and private autonomy for unit owners and management associations, it makes little mention of the “responsibilities” and “duties,” which should be inextricably linked with such rights, that unit owners and management associations should inherently bear for society, in connection with the proper management and demolition of buildings, and there is a lack of such provisions.

Under the current legal system, the accumulation of a repair reserve fund and the implementation of large-scale repair work per se are not obligation of unit owners or management associations, and also there are no provisions regarding dismantling under the Building Unit Ownership Act. In other words, the current legal system holds that if a management association should decide not to repair or dismantle a building no matter how old it will become, society could not overrule such a decision; and even unit owners who oppose such a decision have no choice but to accept it<sup>7</sup>.

Under such a system, not only is it impossible to fully cope with the increasing risk of decrepit buildings arising, but there is also a possibility that this will result in a moral hazard among condominium unit owners, and that the cost of demolition will not be borne by the unit owners themselves, but will instead be passed on to society as a whole as well as future generations. As mentioned at the beginning, in a capitalist society, under the private property system, it is the basic principle that the unit owners of condominiums, which are originally a form of private capital stock (dwelling house), should bear the costs of maintenance, management and demolition. Therefore, it is necessary to avoid a growing situation in which such costs are passed on to society as a matter of course.

So what should we do? I urge national and local governments to take the following five steps as soon as possible, in addition to the policy measures they have already taken.

First, and most importantly, the Building Unit Ownership Act, which is at the heart of the condominium-related legal system, should clearly state that unit owners or management associations have the social responsibility and obligation for proper management and demolition<sup>8</sup>.

Second, the government should grasp the current state of condominium management. Specifically, it is desirable to expand nationwide the reporting and information disclosure system that has been promoted by the Tokyo Metropolitan Government and the City of Kobe. If the social obligations and responsibilities of condominium unit owners and management associations are legally defined, such a system would be highly effective. In addition, the information disclosure system provides current owners with an incentive to make efforts to implement proper management and to increase the asset value of their properties, thus making it easier to find the “next buyer.”

Third, details of maintenance, management and demolition obligations need to be established. First of all, with regard to maintenance and management, it will be necessary for the national government to establish a

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<sup>7</sup> Kamano [2009] said that the current condominium-related legal system allows and promotes a “failure to maintain and manage” condominiums, or such a behavior that “everybody’s business is nobody’s business” (P21).

<sup>8</sup> More specifically, it would be necessary to prescribe the right of each unit owner to request the management association, etc. to perform its appropriate maintenance, management and demolition obligations.

regulation or to provide guidelines and standards, etc., after thorough discussions with architectural experts and other concerned parties, with respect to the extent to which and how long mandatory maintenance and management should be required, and the extent to which the aging of buildings and the increase in the number of untraceable unit owners should progress before condominium renewal measures are considered. In doing so, it is desirable to apply the obligation of proper management immediately to newly built condominiums, and to flexibly apply it to existing properties by setting a transitional period. Next, with regard to demolition, in addition to stipulating the requirements for consensus building and the rules concerning the process under the Building Unit Ownership Act, it will also be necessary to prescribe a mechanism whereby the unit owners themselves will bear the demolition costs (who, when and how to set aside reserves for demolition)<sup>9</sup>.

Fourth, a framework should be established to allow active participation in the renewal of condominiums. This is in line with the direction of the national government's ongoing efforts to revise the law. As the population continues to decline rapidly throughout the country, it is expected that more and more problems will arise that will be difficult to solve by the parties concerned alone, such as what to ultimately do with aging, unoccupied, or abandoned condominiums<sup>1011</sup>, and how to protect the rights of the few remaining residents.

Finally, I would like to point out that management and renewal should be made more flexible and diverse. Specifically, it is worth considering expanding the definition of "management" under the current system and making it easier for the management association to carry out operations such as purchasing vacant rooms and changing the purpose of common areas to remake them into stores, in accordance with the changing wishes and needs of residents. In addition, it is also worth considering the introduction of a new type of management system that is not necessarily based on the management association, amid an anticipated increase in the number of unit owners who will not be able to get involved with management due to their advanced age. With regard to renewal, there will be a need to continue to consider diversifying renewal options and relaxing the requirements for resolutions.

## 5. Remaining issue: supply of housing

As mentioned at the beginning, the way that housing should be maintained and dismantled in the era of declining population will be called into question in the future. However, there is also a problem with the supply of housing, which is at the beginning of the cycle. This problem is related not only to condominiums but also to housing in general.

In Japan, from the period of high economic growth when the population was increasing to the present day when the population started to decrease, housing has basically been supplied at a pace that exceeds growth in the number of households, mainly new houses. The government supported the plan as part of measures to boost

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<sup>9</sup> Yoneyama [2016] raised questions about how to ensure that demolition costs are borne by unit owners (advance collection, etc. through fixed asset tax), and how residential complexes should be supplied by replacing subdivision (popularization of fixed-term leasing of condominiums, etc.)

<sup>10</sup> If local governments become involved in the renewal of condominiums across the region, it would be an option for them to encourage residents to move into a single condominium when there are several aging condominiums with fewer residents in the neighborhood, by rebuilding only one condominium and dismantling others.

<sup>11</sup> The Special Committee on the Liquidation System [2018] stated that the framework for compulsory demolition of condominiums with management problems and external diseconomies as a last resort should be expanded, for example, by relaxing the requirements for the resolution on liquidation, even if residents remain in such condominiums.



the economy, and there was strong desire among the people to live in new houses perhaps because Japan is an earthquake-prone country. This direction has been slightly modified in recent years, as witnessed by the expansion of distribution in secondary housing markets. However, with the promotion of population attraction under the local revitalization policy, some local governments are still trying to ease development regulations in order to attract more people despite the decrease in the population, and large-scale new condominiums and condo towers have been built.

As the population continues to decline rapidly into the future, the costs that society as a whole can shoulder to maintain and retire the private capital housing stock will undoubtedly become increasingly limited. Therefore, it may be necessary to review the way housing is supplied, for example, by setting criteria and targets for the total amount of housing stock at the national or regional level, or by introducing development regulations at the regional or national level.

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