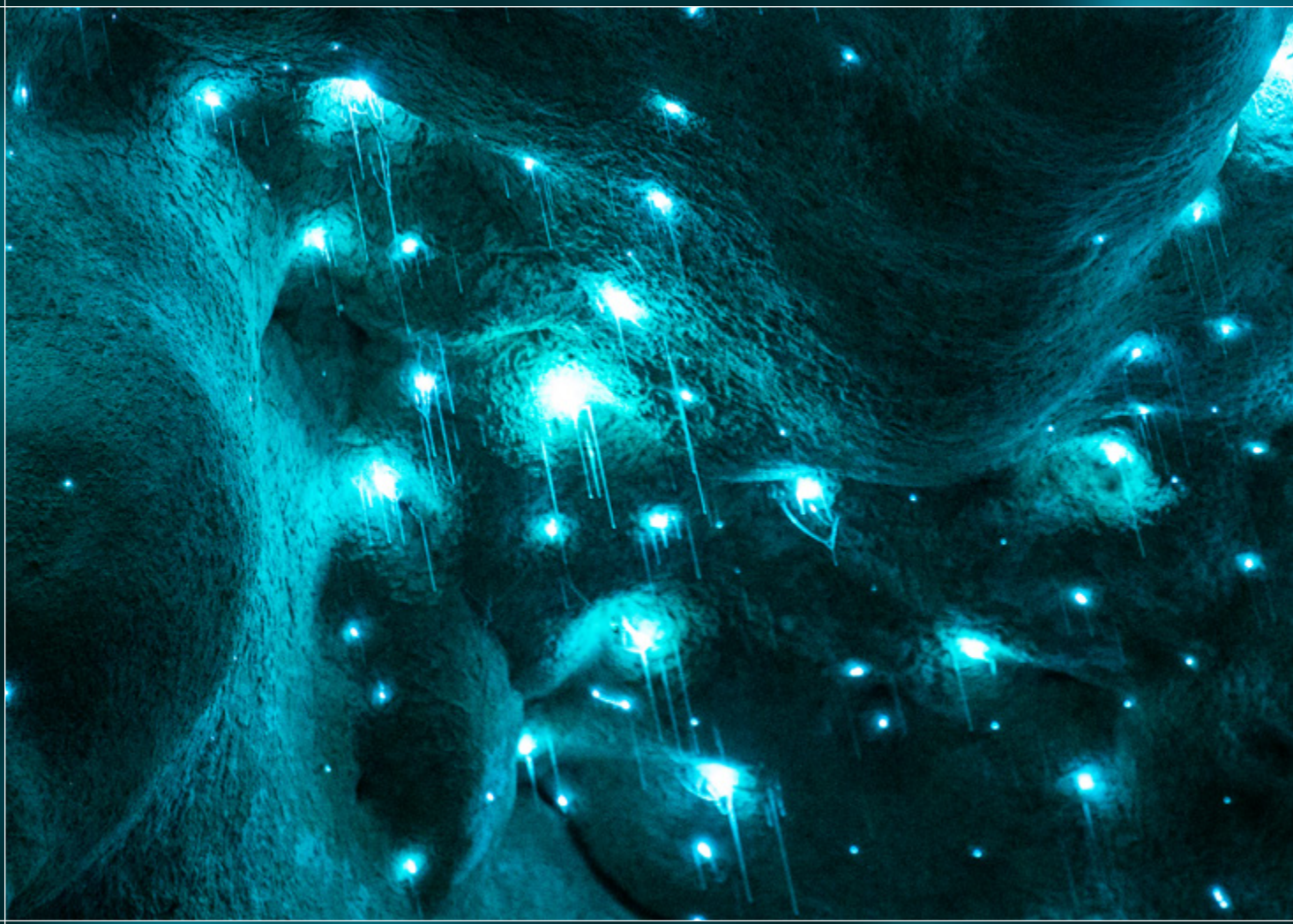
November 2026

Data Centres

APAC Regulatory Guide – **Japan**

Investment considerations



MALLESONS

Chapter 6

Japan



A year of... accelerating AI-ready capacity, regulatory certainty and cross-border openness

Population	Data centres	Live capacity	Pipeline capacity
122.4 million	299	2GW	3.16GW+
	YoY: 22 (7.9%)	YoY: 132MW (7.1%)	YoY: 650MW (26.1%)

Data centre statistics provided by DC Byte (as at September 2026)

Japan's data centre market is among the world's largest by revenue, and the second-largest in APAC after China. Tokyo and Osaka dominate current capacity, but regional diversification, particularly in Kyushu and Hokkaido, is gathering momentum as power availability, resilience and decarbonisation increasingly drive location strategy.

Japan's growth is largely due to political stability, strong local talent, international connectivity and wide acceptance of AI. This is complemented by a clear regulatory framework with limited restrictions on critical infrastructure and foreign investment.

Incentives are more targeted. Current policy is focused on regional data centre hubs and local cloud and AI compute capacity, rather than a general tax holiday model.

Power availability is the main development constraint, particularly in Greater Tokyo, with potentially lengthy lead times. Construction costs, land scarcity and labour shortages can further delay projects, while exposure to natural hazards makes resilience and disaster recovery key commercial considerations.

Opportunities

- Clear regulatory framework and stable economy
- Few foreign investment, critical infrastructure restrictions
- No general data localisation requirements

Challenges

- Power supply carries significant delays and costs
- Rising land and construction costs
- Limited incentives

Spotlight on key drivers

Regulatory clarity and confidence

Japan's commitment to regulatory transparency and its stable economic and legal environment make it an attractive destination for data centre developers and operators. In particular, there are clear standards for data protection and cyber security, along with a supportive approach to innovation.

The government has been openly hesitant to hinder innovation and create excessive burden in connection with AI. Japan has now enacted a law specifically focused on government-led promotion measures for AI, the *Act on Promotion of Research and Development and Utilisation of Artificial Intelligence-Related Technologies*.

Voluntary industry standards also continue to matter. In particular, the Japan Data Centre Council's voluntary Data Centre Facility Standard is focused on ensuring and improving the quality and reliability of the design, construction and operation of data centres.

Open to foreign investment

Japan's commitment to foreign investment openness is a significant drawcard for international capital in the data centre sector. There is generally no restriction on foreign ownership of land, allowing offshore investors to acquire property. However, acquisitions involving companies operating in designated sectors may require prior filing, but approval is rarely withheld.

Nonetheless, foreign players should understand that Japan is a very localised market. Knowledge of, and respect for, cultural norms and business practices are critical for success.

Championing data flow without borders

The Japanese Government has adopted a policy position of promoting the free flow of data via the concept of Data Free Flow with Trust (**DFFT**). It does not provide general data localisation regulations or require government access to data. This may increase the attractiveness of politically independent Japanese data centres to overseas players.

> Japan's data centre market is becoming more institutionalised. In addition to ongoing development activity, several stabilised assets have recently been sold to funds, and new operational fund structures are beginning to emerge. REIT transactions are still limited, but regulatory developments on REIT eligibility could help create a pathway for future DC REIT investment.

Satoru Hasumoto
Partner, Mori Hamada



01 Power

Getting power to a site

Japan has a liberalised electricity market with multiple utilities and retail suppliers. Despite this, there are availability and cost hurdles.

Securing reliable electricity supply can face significant delays, particularly in Tokyo and other major cities. Grid capacity limitations, ageing infrastructure, lengthy approval and permitting processes and strict zoning and environmental laws all contribute to a prolonged development and construction process, particularly when new infrastructure is required.

In 2025, TEPCO Power Grid published a large-scale supply potential map showing areas where early supply may be possible for high-load users and providing indicative construction lead times. In practice, connection timing remains highly location-specific and can extend to a number of years in constrained areas.

The application process varies depending on the provider, but the contractual terms are usually standard form and not negotiable.

Power purchase agreements

In Japan, data centre developers can procure electricity through ordinary retail supply arrangements.

Under the current circumstances of rising electricity prices in Japan, energy-saving and environmentally friendly initiatives are essential to improve profitability.

In addition to procuring power from large power supply companies, such as TEPCO, data centre developers and customers are increasingly procuring renewable energy through various means, including:

- selecting renewable energy
- options from large power supply companies
- purchasing environmental attribute certificates, and
- entering into virtual PPAs.

Navigating corporate PPA options

Promoting a more decentralised and sustainable future

In 2023, 80% of data centres in Japan were concentrated in Tokyo and Osaka, creating an uneven distribution of power loads and causing stress on the grid. To decentralise this concentration, and to tap into clean energy supply located in other regions, the Ministry of Economy, Trade and Industry (**METI**) is actively promoting the development of data centres outside of Tokyo by offering certain subsidies.

Areas of focus for subsidies include Hokkaido and Kyushu, which have rich renewable energy resources, such as hydropower, solar and offshore wind (see 'Tax and other incentives' below for further details.).

PUE and energy consumption reporting

The data-centre measures under the *Act on Rationalising Energy Use and Shifting to Non-fossil Energy* took effect on 1 April 2026.

In broad terms, the regime now:

- sets a benchmark target of an average operator PUE of 1.4 or below by FY2030
- continues to apply the specified-business framework to operators whose annual energy consumption reaches the statutory threshold
- expands information-disclosure and publication obligations and brings certain tenant-type hosting or cloud data centres into the PUE regime, and
- for certain newly established data centres from FY2029 onward, introduces a requirement to achieve a PUE of 1.3 or below after two years of operation.

02 Water

Water supply

Water supply is a matter for the local water authorities. The process and requirements vary depending on where the site is located, but generally speaking:

- developers must use the relevant local supplier
- connection may be subject to limitations depending on local infrastructure, capacity and regulations, and
- water suppliers must make their relevant terms of service, including rates, open to the public and are required to provide water to consumers within their service area when an application for supply is made under the W*ater Supply Act 1957*.

Water reserves recommended

While there are no specific guidelines on water usage in data centres, the voluntary Data Centre Facility Standards provide a list of recommended items for a data centre which include a 'makeup water reserve' for air conditioning.

03 Land

Where can developers build data centres?

Japan classifies land into 13 use zones, which are broadly grouped into residential, commercial and industrial zones.

Data centres:

- are permitted in quasi-industrial, industrial and exclusive industrial zones – these are the most common and practical zones for data centre development
- may be permitted in commercial or mixed-use zones, depending on the specific use classification, size and local government interpretation - additional permissions may be required in these zones, and the process can be complex and uncertain, and
- are generally not permitted in residential zones.

More broadly, there are restrictions under several laws and ordinances. The major regulations for building data centres are:

- *City Planning Act 1968* (**City Planning Act**)
- *Building Standards Act 1950* (**Building Standards Act**), and
- *Landscape Act 2004*.

In addition to these principal statutes, project feasibility may be affected by a large number of local statutes and ordinances.

Are any permits or approvals required?

- If a data centre exceeds a certain size, development approval is required and this includes a process of community consultation. This approval process may take 6 to 12 months under the City Planning Act.
- Approval from the Minister of Land, Infrastructure, Transport and Tourism, or a designated approval body, may also be necessary where, for example, certain types of building materials or structural methods are used, extending the development timeline by several months. This is under the Building Standards Act, which also requires a public hearing.
- Where development is carried out on privately owned forest land covered by a Regional Forest Plan, a forest land development permit may also be required under the *Forest Act 1951* and is issued by the relevant prefectural governor.
- In Japan, there have been multiple cases where local residents have launched opposition movements against data centre construction. When constructing data centres, in addition to coordinating with administrative authorities, developers are practically required to hold explanatory meetings for local residents.



04 Telecommunications

Is a telecommunications licence required?

Whether a data centre operator requires registration or notification with the Ministry of Internal Affairs and Communications (**MIC**) depends on the actual service model. The legal analysis turns on whether the operator is carrying on a 'telecommunications business' under the *Telecommunications Business Act* (**TBA**).

Data centre operators are required to:

- register with MIC as a telecommunications business if they conduct a telecommunications business by providing telecommunications services to customers
- notify the MIC if they provide telecommunications services, but their transmission facilities are limited to a single municipality (for terminal facilities) or a single prefecture (for relay facilities), or
- protect the security of communications only (that is, no registration or notification is required) if the service only uses telecommunications facilities without installing line facilities and does not mediate third-party communications.

Applicability of telecommunications laws to data centres

The TBA applies to data centre operators or developers if they provide services requiring them to be registered with the MIC. If registration is required, data centre operators must, amongst other things:

- comply with technical standards
- establish administrative regulations for those technical standards and notify the MIC of those regulations prior to commencing business, and
- appoint a chief telecommunications engineer.

05 Foreign investment restrictions

Land

There are no general foreign investment restrictions on ownership of land in Japan. However, land or building transactions in designated special monitored areas can trigger prior notification under the *Act on the Review and Regulation of the Use of Real Estate Surrounding Important Facilities and on Remote Territorial Islands.*

Data centres

Foreign investment in companies engaged in designated business sectors can require prior filing under the *Foreign Exchange and Foreign Trade Act 1949* (**FEFT Act**). In a data centre context, relevant categories may include:

- telecommunications
- software
- information processing
- information services, and
- activities linked to critical infrastructure.

What does the process look like?

This process is more akin to a pre-screening process than an approval, but the government may impose restrictions or conditions on the relevant investment.

06 Tax and other incentives

Decentralisation incentives

Japan's incentive regime is targeted rather than broad-based. A principal policy theme is the decentralisation of digital infrastructure away from Tokyo and Osaka.

METI has used regional data centre hub programmes to support qualifying projects outside the main metropolitan areas, including costs relating to land development, electricity and telecommunications infrastructure, buildings and equipment. The Tomakomai project in Hokkaido is a prominent example of that policy direction.

In addition, some local governments also offer subsidies for data centre development in their respective regions.

Softbank received a ¥30 billion (~US$190 million) subsidy under this program for the construction of a 50MW (with plans to scale to 300MW) data centre in Tomakomai City, Hokkaido.

Energy efficiency and renewable incentives

The Ministry of Environment offers subsidies aimed at enhancing the environmental performance of data centres. These initiatives focus on promoting energy efficiency and the adoption of renewable energy sources. They are available to businesses that install renewable energy and energy storage systems or low CO^2 equipment, such as energy efficient cooling systems, in the construction or renovation of data centres.

Government infrastructure systems

METI offers subsidies through the 'Government Cloud' and 'Cloud Program' for entities providing government and local government infrastructure systems.

In 2023, Sakura Internet Inc. was the first domestic provider of the 'government cloud' and received a ¥600 million (~US$4 million) subsidy.

Government-related agencies are generally required to procure cloud services from providers listed in the Information System Security Management and Assessment Program (**ISMAP**).

To be registered on the ISMAP Cloud Service List, service providers must pass both:

- an external audit by meeting ISMAP's management standards, and
- a compliance test by the ISMAP Steering Committee.

Capital markets and exit structuring

A further recent development is the Financial Services Agency's June 2025 clarification that certain data centre related equipment, when installed in specified ways, can constitute real estate for investment trust purposes. This is potentially relevant to J-REIT eligibility, exit planning and the expansion of capital sources for data centre projects.

Generally, when foreign investors develop data centres in Japan, it is common practice to establish a dedicated special purpose company for the data centre and structure the investment to achieve tax advantages.

07 Data protection and cyber security

Data protection or privacy laws

Businesses handling personal information must securely manage the personal information that they hold, under the *Act on the Protection of Personal Information.*

Sending information offshore

Cross-border transfers of personal data generally require the transferor to explain the relevant foreign-country data protection framework or equivalent protective measures and to obtain the individual's consent, unless another statutory route is available.

Managing important systems

The Personal Information Guidelines also require the appropriate management of important information systems such as servers and main computers that handle personal information.

Sector-specific requirements for healthcare

The Guidelines for the Secure Management of Medical Information Systems require medical institutions and related businesses, when storing medical information externally, to:

- verify the security practices of their system providers (including data centres), and
- select providers that comply with the Guidelines for the Safety Management of Providers of Information Systems and Services Handling Medical Information, established by METI.

Practically, if a data centre operator is providing colocation services only, it is unlikely to trigger any material regulatory requirements, and these requirements are more likely to apply to customers of data centre operators rather than the operators themselves.

Cloud service providers or managed hosting providers are more likely to need to comply if they collect or handle personal data.

Breach notification obligations

Unauthorised access to personal information on data servers must be reported to the Personal Information Protection Commission.

08 Critical infrastructure and security

Japan still does not have a single omnibus statute that regulates all data centres as critical infrastructure on a general basis. That said, the legal environment has clearly tightened.

The law commonly referred to as the *Cyber Response Capability Enhancement Act* was enacted in May 2025. The main operative provisions are *scheduled to come into force on 1 October 2026*.

Separately, the critical infrastructure regime under the *Act on the Promotion of Ensuring National Security through Integrated Implementation of Economic Measures* is already in operation. Designated operators in specified sectors must make prior filings before introducing certain important equipment or outsourcing certain maintenance functions.

This means that data centres may be affected indirectly even if they are not themselves regulated as critical infrastructure on a standalone basis, particularly where they provide services to customers in telecoms, energy, finance or government-related sectors.



09 Data localisation

There is no general regulation concerning data localisation or residency in Japan. Instead, the Japanese government supports the concept of DFFT.

What is DFFT?

DFFT is a concept which aims to promote cross-border data flows while ensuring trust in privacy, data protection and security measures. It was first introduced by former Japanese Prime Minister Shinzō Abe during his speech at the World Economic Forum in Davos in 2019.

It has since been embraced by international bodies such as the G7, G20 and OECD.

Even without a general localisation rule, sector-specific regulation, public-procurement standards and export-control or security considerations can still create practical restrictions on data location, outsourcing and system architecture.



10 Environmental, social and governance

International ESG commitments

Japan remains a signatory to the Paris Agreement and continues to maintain its 2050 net zero objective.

In February 2025, Japan submitted a new NDC targeting (compared to 2013 levels):

60%	73%
reduction in greenhouse gas emissions by 2035	**reduction by 2040**

Voluntary technical standards or accreditation

The Data Centre Facility Standard, formulated by the Japan Data Centre Council, is a widely used voluntary guideline for ensuring and improving the quality and reliability of the design, construction and operation of data centres. The Standard focuses on:

- ensuring that facilities are disaster resilient
- access control systems protect the building and server room
- backup systems ensure the facility continues to operate during power outages or maintenance, and
- the data centre maintains a high level of service reliability for end users.

Benchmarks and other ESG considerations

For details on benchmark regulations and other ESG-related considerations applicable to data centre developers and customers (see 'PUE and energy consumption reporting' and 'Power purchase agreements' above for further details).

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