

# Starts and Stops

After several years of strong growth, the real estate and construction industries began to feel a chill starting in the second half of fiscal 1990. By fiscal 1991, the actual turnover was down on a year-to-year basis.

There was major slowing in the housing sector in fiscal 1991 as higher interest rates and labor shortages pushed supply-side costs higher and the sluggishness in the condominium market affected the demand side. As a result, it is expected that housing starts were down 20% over the previous year to somewhat under 1.4 million units. Among the supply-side factors responsible for this sharp decline in housing starts are that higher interest and construction costs have dramatically eroded profitability on rental units, and the sluggish sales of condominiums already on the market has combined with a massive flow coming onstream as builders rushed to develop new properties in fiscal 1990.

In the non-housing sector, the major reasons for the slump are the overall deterioration in the real estate market and the fact that companies have scaled back from their strong capital investment plans of the last few years. Until recently, companies drew on their bullish profits to invest in new plant for rationalization, productivity improvements and employee welfare, but such capital investment is now being put on the back burner because of higher amortization costs,

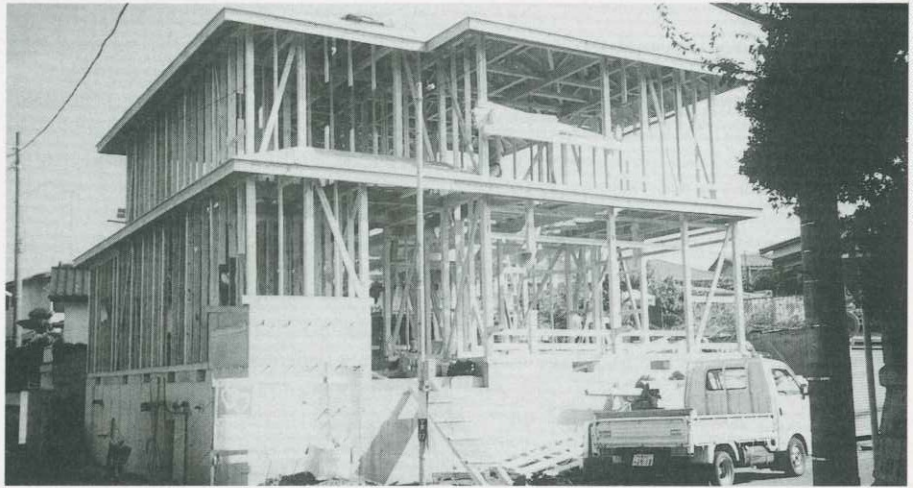


Photo: Kinoshita Builders Co.

The number of housing starts is expected to continue falling in fiscal 1992.

higher interest rates and more difficult capital procurement as a result of the stock market's sluggishness and other pressures on corporate profits.

There is also considerable uncertainty and anxiety about the economic future, prompting many companies to scale back or defer their investment plans. Even so, non-housing contractors still have a strong backlog of orders on hand, and it is unlikely that this sector will experience the same difficulties as the housing sector in fiscal 1991, with construction starts probably slipping only 6% from the previous year to 120 million square meters in floor-space terms. Given all of the above, total starts are expected to be down

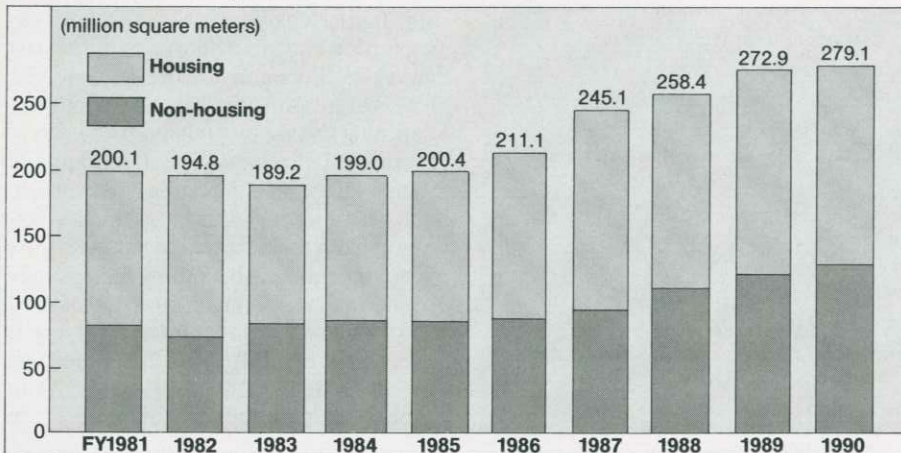
about 12% in floor-space terms to about 245 million square meters.

The outlook is for more of the same in fiscal 1992, and it is forecast that the total starts for both sectors will be about 230 million square meters of floor space, or 5% less than in fiscal 1991.

By sector, the housing sector is not expected to see recovery in either rental starts or condominium starts, since there is little hope for any rapid improvement in the general climate and specific market conditions, and there may well be further deterioration in fiscal 1992. There is, however, strong residual demand for renovation of owner-occupied single-family units, and this is expected to put a firm foundation under total starts such that the industry will probably be able to maintain a pace of 1.3 million units per year. This said, it should be noted that continuing uncertainty over interest rates, land prices, market conditions and more make it difficult to expect much activity on either the demand or the supply side.

In the non-housing sector, companies are expected to continue to be hesitant about new plant investment and contractors' work backlog is expected to dwindle, the result being that total starts in fiscal 1992 will be down about 8% to around 110 million square meters.

## Construction Starts by Year



Source: Monthly construction statistics, Ministry of Construction

(Yoshiyasu Mizutomi/Kazuhiro Ono, economists)