

# High and Solid

Construction demand is expected to remain high and solid in fiscal 1988 through 1989, trailing a big jump in fiscal 1987. Consequently, construction companies will also enjoy an expansion or at least a recovery in their business. For real estate companies, property transaction revenue growth may slow down but this can easily be offset by increases in rent revenues, and their performance will also be solid.

Land prices, after years of soaring, started to level off in the second half of fiscal 1987. Some localities even saw land prices declining. A land price survey conducted in July 1988 showed that the Tokyo metropolitan area's average land price, all categories of space included, had risen 22.6% from a year earlier. The same survey the previous year had shown a 57.5% increase.

A feeling of restraint doubtlessly prevailed among investors, who were concerned that overheated land prices had already made some development projects unfeasible commercially if they involved acquiring land. Also effective in cooling land prices were emergency administrative measures such as making designated areas subject to mandatory land price monitoring under the National Land Utilization Planning Law, and a heavier tax imposed on short-term profit-taking transactions.

The demand for office space has more or less eased on a national level, but the supply still remains very tight in prestigious business districts in central urban



Construction companies' revenues and profits will continue growing in the year ahead.

areas. This trend is expected to continue for some time.

Given this environment, the focus of real estate companies' strategy has been shifting to renting. In particular, real estate company-entrusted development schemes, land exchange systems and joint development-ownership ventures are growing rapidly.

On a work-execution basis, construction demand in fiscal 1988 is expected to outpace that of the previous fiscal year, which was already high. Public works demand will rise only slightly, taking a breather after the boom triggered by the fiscal 1987 supplementary budget. But private sector performance will continue strong, powered by a rapid recovery in capital investment triggered by the vigorous economy in general, active building construction in major cities, investment by the service industry such as hotels and retailers, and the effect of booming

housing starts in fiscal 1987. This will more than make up for the quieter public works sector.

Housing starts in fiscal 1988, however, are expected to sink from the fiscal 1987 level in reaction to high land prices as well as the closing of investment cycles. In fiscal 1989, demand growth will slow further, because housing starts, particularly of houses for renting, as well as non-home construction starts will continue to slow down. Meanwhile, fiscal 1989 public works will show steady growth mainly thanks to ventures financed by treasury investment and loans, or independently by local governments.

In such an environment, construction companies' revenues and profits will continue growing, partially thanks to stable construction costs through fiscal 1988 and 1989. The increase in profits, however, will mainly come from expanded overall revenues, and consequently increases in profit ratio will be not as fast as may have been expected.

Foreign companies will gradually get a stronger foothold in the Japanese construction market, entering the market initially via the consulting and engineering fields. In the construction-contract field, however, it may still be too soon for foreign firms to expect to win single-contractor deals. The likeliest scenario is that foreign contractors will form joint ventures with Japanese partners to bid for public works projects.

## Construction Investment (nominal basis)

(¥ trillion)

	FY 1987	FY 1988 (estimate)	FY 1989 (forecast)
<b>Total</b>	61.0	63.9 (4.7)	64.9 (1.6)
<b>Construction</b>	36.4	38.6 (6.0)	38.7 (0.2)
Residential	20.3	21.2 (4.0)	20.2 (-4.7)
Nonresidential	16.1	17.5 (8.6)	18.5 (6.0)
<b>Civil engineering</b>	24.5	25.2 (2.9)	26.2 (3.8)
<b>Government</b>	23.4	23.8 (1.5)	24.7 (4.0)
<b>Private</b>	37.6	40.1 (6.8)	40.2 (0.2)

Notes: 1. Figures in parentheses represent growth rate over the previous year.  
2. Forecast for FY1988 and 1989 was prepared by the Industrial Research Division, IBJ.

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