

# Faced with a Balance Sheet Slowdown

Growth in the real estate industry in fiscal 1993 was spotty as land prices continued falling and the market for office properties continued to stagnate, while the housing market showed promise, primarily in the area of first time buyers. Regarding land prices, the average published land price (January 1993) and standard prices (July 1993) have fallen nationwide for the second year in a row. The decline has been particularly pronounced in major metropolitan commercial zone areas and few actual demand-based transactions have occurred.

In the office property market, demand for floor space has continued to lag due to the recession, continued completion of large buildings has led to an excess supply situation, and as of December 1993 in Tokyo's 23 wards the unoccupied rate in major office districts had risen to 9.1% (according to a survey by Ikoma Database Service). On the basis of advertised vacancies, rents had fallen by about 40% compared to the peak period, but it is thought that the scope of the decline was even greater due to price cuts when contracts were signed.

With the drop in property prices and lower interest rates, however, the housing market has shown signs of activity, primarily in the area of subdivided condominiums in major urban centers. In the Tokyo metropolitan area especially the number of units sold surpassed levels of the "bubble" period and with an annual monthly sales contract ratio in excess of 80% conditions have been more positive. However, favorable indicators have focused on first acquisitions while the market for high-priced properties has continued to lag.

There is also little prospect for a full recovery in the real estate market in fiscal 1994.

With regard to land prices, a rebound will probably still require time, with the exception of relatively low-priced residential land that has already entered a recovery phase. In commercial zones,

## Real Estate Industry Financial Trends

(Unit: ¥ trillion)		Post first oil shock	Before land price explosion	During land price peak	Post land price peak
		March '76	March '86	March '90	March '93
B / S	Condominium properties	6.9	12.6	27.4	35.2
	Finished products	5.0	9.5	20.0	26.5
	Partially completed products and others	1.9	3.1	7.4	8.7
	Rental properties	6.8	22.7	45.7	61.6
	Interest-bearing liabilities	13.2	37.4	79.4	107.5
	Total assets	20.3	54.7	116.7	144.4
P / L	Sales	7.3	21.5	39.0	36.0
	(Interest payable)	(1.0)	(2.3)	(3.8)	(6.0)
	(Depreciation charges)	(0.3)	(0.8)	(1.3)	(1.7)
	Net income or loss	(-0.1)	(0.3)	(0.9)	(-2.0)
Employees (1,000)		553	826	931	1,218

Source: Financial Statements of Corporations Annual

profits have particularly lagged among companies who are the main source of demand, an oversupply of office space and the land-holding tax have become structural factors in sluggish demand, and it is forecast that an actualized transaction phase will be delayed until an actual business recovery.

In the office property market there is still a considerable supply of newly completed properties, a quick recovery is not expected for floor space demand, and there is anxiety about the growing gap between supply and demand. Although there are expectations that office space demand itself will recover from 1995, along with the economy and corporate results, there is a strong possibility that the situation of over supply will continue over the mid-term due to an inability to digest the huge volume of stock, including existing supplies.

In the apartment market in metropolitan Tokyo, which showed promise in fiscal 1993, a supply of around 50,000 units is predicted for fiscal 1994. Looking at mid-term demands, it is thought that there should be a certain level of existing potential demand left over from the period when land prices exploded with the high metropolitan population growth rate, but demand

may once again go dormant with spreading consumer insecurity and there is a possibility that the market might temporarily stagnate. On the other hand, there are no expectations that the market for high-priced properties will quickly recover due to a sluggish second-hand market and it is thought that about two to three more years will be needed before a revitalization in the overall condominium market occurs.

In the midst of this real estate slump the industry faces a "balance sheet slowdown." Sales growth has not kept pace with asset and liability growth and while asset turnover has slowed, a large stock of properties has been built up since land prices peaked and there have been hints of the existence of poorly-performing assets (see chart). From the standpoint of earnings as well it is predicted that in fiscal 1993 and 1994 the industry will continue to face the same situation as in fiscal 1992, when current losses were registered for the first time since fiscal 1975 (based upon Financial Statements of Corporations), and that it may require considerable time before overall industry profits begin to rise again.

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