

Positive Outlook Not in the Cards for Fiscal 1995

In the midst of a prolonged recession and a continual fall in land prices, the high and low points for the housing and real estate industry in 1994 were clearly defined: in the condo market, experiencing its sixth boom; and in the office market, which continues to be in the doldrums.

The boom in condo sales was largely brought on by an enhanced purchasing environment for first-time owners, such as plummeting land prices and construction costs, low interest rates, and easier financing terms from the Housing Loan Corporation. However, the underside reveals a negative result, that is, an oversupply in the market which took place from around the end of 1994.

With a heavy supply of newly-constructed buildings on the one hand, and sluggish demand for floor space in the midst of a recession and industrial restructuring on the other, no relief has been obtained from continued surpluses in office space. Consequently, the aver-

age vacancies in the 23 wards of the Tokyo metropolitan area rose to 9.8% in the month of September 1994. Subscription-based rents fell 30%, though in actuality due to further rent concessions at contract-signing time the extent in reductions was even greater.

The slide in land prices does reflect this situation, and overall real estate transactions have increased due to the particularly buoyant market in reasonably-priced residential plots. But for commercial properties, if one disregards a few low-priced properties, transactions are few and far between and the outlook continues to be gloomy.

The prospects for a total recovery of the real estate market in 1995 do not seem promising, either.

Notwithstanding that brisk sales in condos are starting to taper off, construction is still taking place at a break-neck pace, and the market is expected to remain at the same 1994 high level in

1995. There is a very real fear that stocks will enlarge greatly, and that prices will further plummet.

Nevertheless, it is expected that this situation will be short-lived as the market will stabilize itself towards the second half of the year due to population increases necessitating, on average, 40-50,000 new condominiums a year, and lower prices bringing in a large influx of first-time buyers who could only previously afford rental housing.

In the office market on the other hand, while construction starts already launched continue to furnish a supply of office buildings onto the market, more time will be needed before procurement of office space—such an integral part of a company's capital spending—starts to really pick up again. Overall, there will continue to be a weak relationship between demand and supply in 1995.

It is expected that a gradual shift towards competing for customers, between buildings in differing locations and of varying degrees of facility, will take place. As a result, vacancies will be at the 1994-1995 peak of office supply, and though the vacancy rate will ascend at a sluggish speed, overall an influx of vacancies in less competitive buildings determining rent levels, will force rents to plummet further.

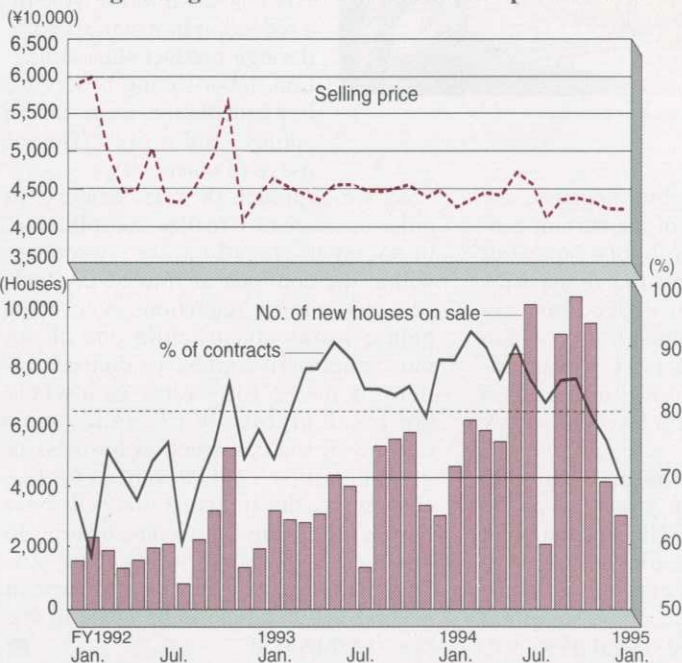
As for land prices, while the supply of condominiums shows a surplus, the cost of a reasonably-priced residential plot will continue to sink further downwards. Furthermore, as the burden of property taxes and of decreasing office demand has become a built-in factor in deteriorating the very demand office districts depend on, it will be a while yet before an absolute lowest value in rents is discovered.

Based on the above points, we can assume that the business outlook for real estate companies for the foreseeable future will be severe. With the increasing burden of property taxes, real estate companies are desperate to see a rise in land prices over the mid- and long-term and will continue to utilize profits from condominium sales to pay their office properties sector. Nevertheless, the excess supply of office space that is forecast for the foreseeable future will force them to restructure by disposing of those loss-making properties obtained during the high price levels of the bubble era. For this reason, a positive outlook for the real estate business in general will not be forthcoming for the time being.

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Marketing Changes for Mansions in the Metropolitan Area



Source: IBJ compilation of a Real Estate Economic Research Institute Industrial Research survey