Post–Bubble Realignments Continue

Property prices in transition

As the government reviews its property policies and financial institutions attempt to resolve their bad debt problems, property price trends will reach a significant turning point in 1996. For land prices to bottom out it is essential to encourage the circulation of property and ensure that base price levels accord with restored profitability. Tax reform will lead to reductions in capital gains tax rates and lighter property taxes, having a substantially positive effect on property circulation.

However, even when these benefits are taken into account, residential property prices will probably not hit bottom until 1997 or 1998 at the earliest, followed by commercial zones in 1998 or 1999. Further, property prices will increase at a modest rate after they trough, at about the same pace as nominal GDP and long–term interest rates over the mid–term.

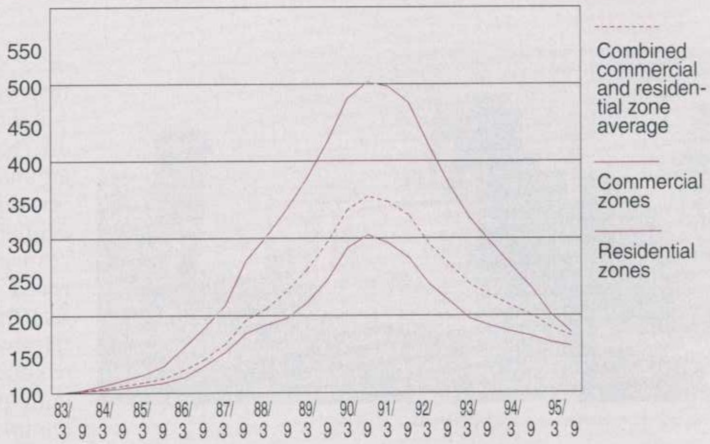
Recovery in condominium replacement demand is key

Because the entire industry jumped into the market for subdivided condominium properties in expectation of relative profitability, Tokyo metropolitan area condominium stocks reached a record high point of 85,000 units in 1995, generating a substantial oversupply situation, and the "sixth boom" that had lasted from 1994 appeared to be in its final stages.

Stocks are expected to decline substantially in 1996 to about 64,000 units, but this will still top the average year's base level of 40–50,000 units.

Underpinned by inexpensive land, cheap construction costs, and low interest rates, the sixth boom was driven by sales of low–priced properties to first–time buyers. The extent to which replacement demand from repeat buyers materializes will be an important point to note in the future.

Price Index, Six Major Metropolitan Areas (March 1983=100)



Source: Compiled by Industrial Research Department of the Japan Real Estate Institute's "Urban Land Price Index"

Private citizens were also badly burned by the asset deflation that accompanied the bursting of the bubble and will require governmental support.

Up to now, housing policies have focused on the acquisition of houses owned by first–time buyers, but in the future the central policy tenet should be the extent to which incentives can be offered for trading to a new house from the huge supply of existing housing stock. For example, specific types of assistance, such as tax code provisions to permit capital losses incurred when trading to a new house, to be carried forward for several years, are needed.

Long–term gap in office building supply and demand

In the current commercial property market in Tokyo's 23 wards, the supply of large office buildings in the Metropolitan Waterfront Subcenter and elsewhere has finally peaked. As the economy begins to rebound from its low point, demand should begin to curb the rise in vacancy rates. On the other hand, rent levels are still falling, undercutting corporate profitability. Along with an existing gap in supply and demand equivalent to around 34 Kasumigaseki Buildings, growth in demand for office space has remained low, indicating that it will be difficult to eradicate the supply and demand gap within this century.

Seen individually, competitive disparities between buildings with better locations and facilities and other properties is bound to grow. With the promulgation of a new law to promote improvements that will make buildings more earthquake–resistant, the ability to handle building inspections and anti–earthquake renovations will be a future factor in buildings' attractiveness or lack thereof.

Shifting operations away from dependence on price rises

As the real estate slump lengthens in the aftermath of the bubble's collapse, the industry faces a need to radically rethink its business methods. There is a particular need for businesses to shift away from their dependence on price increases, and this will be a significant issue as the 21st century approaches. To date, there have already been some attempts to develop new operations that are not contingent upon property holdings, such as fixed term leaseholds and joint real estate investment projects, but from here on there will be a further shift to supplementary services, such as the provision of data and management services targeting at existing housing and office stocks. JJTI

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