

Foreign-made Homes at Center of Construction Industry Revolution

By Hayden Stewart and Peter Dowling

Dealers from the United States, Canada, Western Europe, New Zealand, and Australia have been selling between 1,000 and 1,500 prefabricated homes in Japan annually for the past 20 years. Now the Japan External Trade Organization (JETRO) hopes for a more than 3,000% increase in sales.

According to managers at the Import Promotion Division, JETRO hopes to improve trade relations with the U.S., purge Japan's construction industry of exclusive business practices, and bring reasonable prices to Japanese consumers.

Promoting imports of prefabricated homes is a palliative for Japan's trade

surplus, due to each home's high unit value, JETRO says. The building materials for a single unit may cost from ¥4,000,000 to more than ¥10,000,000. JETRO hopes to see sales of 50,000 homes annually and if successful, this program should also provide Japanese people with more economical housing. "Increased imports will arouse competition within Japanese industry, correcting exclusive business practices and giving consumers better options," they say.

JETRO will provide builders with low-cost exhibition grounds. Such lots, enough to display four to six model homes, rent for ¥1,000,000 per month in suburban Tokyo, not including a ¥5,000,000 deposit. JETRO-subsidized sites will cost 50% to 70% less. JETRO also sent a trade mission to the United States to look for interested companies and to provide market information and advice on building regulations.

Since 80% of foreign suppliers are based in the United States or Canada, North America should be the primary beneficiary of this program. "Nonetheless we welcome all overseas builders," JETRO says. A trade mission will visit Nordic Europe this year, while New Zealand and Australian companies can participate through their offices in Tokyo.

Although companies welcome JETRO's program, many still worry that construction practices and government regulations will continue to damage their businesses.

North American companies lead the way

Deregulation of the construction industry will be necessary to realize JETRO's goal, companies say. Some bureaucracies also concede this necessity and are re-examining policies. As a result, corporations are increasingly optimistic and cooperative with government agencies.

Even without JETRO's assistance,

many North American companies are competitive players. Lindal Cedar Homes, based in Seattle, Washington, is one of these companies. It opened a local subsidiary, Lindal Cedar Homes K.K., in 1973 and is a profitable business.

"By sourcing our materials in North America, we can offer superior quality at reasonable prices," says Horiuchi Katsuya, the company's sales manager. For instance, the firm's lumber, Western Red Cedar, is similar to Japanese *hinoki*.

Many companies from Europe and New Zealand also offer quality and reasonable prices, yet they usually lack the experience of North American firms. Yamanaka Seiichi, a manager at the Royal Danish Embassy in Tokyo, concedes that European builders lag their North American rivals in this industry.

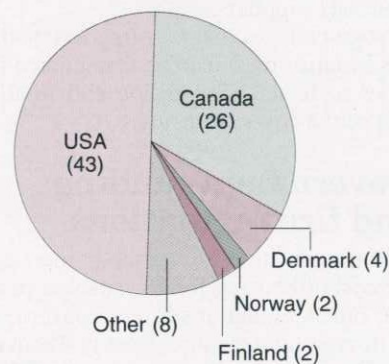
Hosby, Denmark's leading prefabricated homes builder, is currently negotiating with JETRO to build an exhibition ground in Yokohama or Osaka, Yamanaka says.

Similar to Hosby, Lockwood Homes, a major New Zealand company, is also knocking at Japan's door. Gregory Clark, a distributor of these homes, has recently completed an exhibition ground along the Boso Peninsula in Chiba.

Quality features and reasonable prices notwithstanding, many Japanese do not consider buying foreign homes, especially for their primary residence. Matsumiya Hisako, who is inspecting some prefabricated homes in Tokyo, questions their practicality. "I really like them, but I cannot imagine that they would suit my lifestyle. Japanese furniture, for instance, could never fill so much open space," she says.

Nakamura Akira, a customer of Lindal Cedar Homes K.K., agrees that his house would be unusual in Tokyo, although it fits nicely in Gunma. "I must live in a small townhouse from Monday through Friday, so I want to

Number of Foreign Suppliers of Prefabricated Homes by Country



Note: MITI statistics

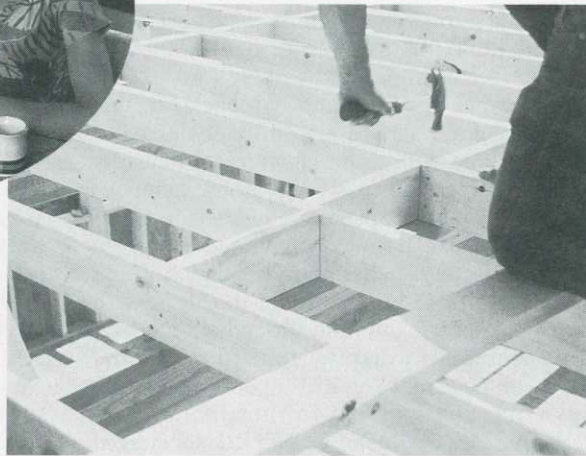
Sales of Foreign-made Prefabricated Homes

1989	1,369
1990	1,486
1991	1,413
1992	1,451
1993	1,565

Note: MITI statistics



Two-by-four construction, the most common residential building method in the U.S. and Canada. Approved in Japan through a 1974 Construction Ministry decree, this method can now be employed by anyone and has steadily gained in popularity since approval.



enjoy a refreshing lifestyle on the weekends," he says.

Noga Yoji, vice president of Issiki Construction Co., believes that JETRO's target is attainable. In order to sell 50,000 units, foreign builders need only capture between 3% to 4% of the total housing market.

Noga personally likes foreign homes and even suggests that the market is larger than JETRO's goal. The problem, experts believe, is not the homes themselves, but a mixture of construction practices and government regulations that both increase housing costs in general and discriminate against foreign-made homes in particular.

Construction methods a major obstacle

According to Nakamura, his home in Gunma was nearly as expensive as a domestic unit, because the imported materials accounted for less than one-third of his home's final price. Shipping, tariffs, and design modifications were also expensive, yet "my greatest burden was labor," he says.

Noga, who also advises the Economic Planning Agency on housing price differentials between Japan and the United

States, confirms that assembly costs can exceed the value of the building materials. "Housing construction is unnecessarily expensive in Japan," he says.

Tradition is partly to blame for high construction costs. According to one JETRO official, "A single Japanese carpenter used to spend several years building a temple or shrine. He selected all his own building materials, dried the wood, designed the structure, and finally build it. Part of this tradition still lives."

Even today, Japanese carpenters, subcontractors, and materials suppliers work closely together and charge a single price for both labor and materials.

Kawamura Tsutomu, whose Tokyo home was custom-built, says that traditional practices both increased the price of his home and limited his range of choices. "The architect designed our home and frequently consulted with the carpenter, who did all of the construction himself. The carpenter also introduced a plumber, electrician, interior designer, and other subcontractors to us. I think they were all old friends. At one point, my wife asked the interior designer to use some carpets from the department store. The company refused and asked us to select our materials

from one of their suppliers. We could not refuse. In fact, we had to pay each of these people a single price for both their materials and labor. It was quite expensive and took longer than I originally hoped," he says.

Instead of spurring productivity, government regulations have encouraged collusive practices, experts allege. In order to receive a building permit, for instance, carpenters must hire government-approved subcontractors. In some areas, there may only be a few such people. "These regulations encourage a lack of competition that brings down productivity," Noga says. "There is no price competition."

By contrast, Noga admires some features of the Western system. In the United States, for instance, carpenters reduce prices by delegating remedial tasks to semi-skilled laborers. Housing buyers may also shop around for the lowest-priced subcontractors and materials suppliers.

Noga believes that construction methods in Japan must also be deregulated in order to foster competition and finally reduce the cost of housing.

Government funding and fire regulations

While construction methods increase the cost of housing for all Japanese people, other regulations affect consumers of foreign homes more directly. Dealers cite Japan Industrial Standards (JIS), Japan Agricultural Standards (JAS), and fire regulations in particular. In the past, these rules have increased the cost of foreign housing and limited its use to the countryside.

In Japan, lumber must be stamped with the JAS seal of approval. Nails, screws, and other hardware must also be stamped with the JIS seal of approval. Most foreign-made home components do not have JAS and JIS stamps. "These seals are similar to markings from Canada and the United States, but the government does not recognize foreign stamps," says Yama-

guchi of the Western Wood Products Association, a private American organization to promote forest exports.

"Receiving permission to build our homes is no problem," says Horiuchi. "The problem is that our customers can seldom get government-subsidized loans." About 75% of Japanese home buyers borrow money from the Government Housing Loan Corporation (GHLC). They pay 30% to 40% less in interest charges than what a bank's typical customer must pay.

Theoretically, foreign companies can get JAS and JIS seals for their building materials. Yamaguchi points to a list of 15 factories across North America whose output is JAS approved. However, all these companies are major corporations, including Georgia-Pacific and Weyerhaeuser. "Lindal Cedar Homes K.K., may lack the resources to pursue such approval," Yamaguchi concedes.

At the same time as cheaper interest rates give Japanese-made homes a price advantage, other building regulations restrict foreign home sales to the countryside.

Fire regulations are the most onerous, Yamaguchi says. Government officials require wooden homes to be five meters from their nearest neighbor. As most foreign homes are wooden, Yamaguchi says that "Urban areas are closed to them."

Japan's population is concentrated in urban areas and wealthy people generally live closer to the city. As a result, it is difficult for prefabricated kits to become primary homes. Lindal's market focuses on wealthy people, who own second homes in the countryside, and on Japan's small rural population.

Without selling in cities, foreign home suppliers cannot hope to increase their sales much. JETRO, for one, hopes that foreign companies can produce Japanese-style homes: using JIS/JAS approved materials, without combustibles, and satisfying other building regulations, too.

Lindal Cedar Homes K.K., is "cooperating with JETRO's initiative," says Horiuchi. In fact, it recently announced a new line of homes, the "City Series," which has been designed

to satisfy urban safety codes. The City Series will be similar to current models, except that brick tile, aluminum siding, or other non-combustible materials will decorate the exterior.

JETRO managers have confirmed that negotiations with several U.S. home builders have been positive: "Companies in Washington, Oregon, and Minnesota have expressed a flexible attitude, and we hope to find other participants, too."

Cooperating with JETRO should benefit these companies, but meeting regulations can be prohibitively expensive for smaller firms, says Clark, Lockwood Homes' distributor. Clark, who originally planned a full-scale entry into the Japanese market, was forced to scale-back his ambitions by the high cost of meeting government regulations.

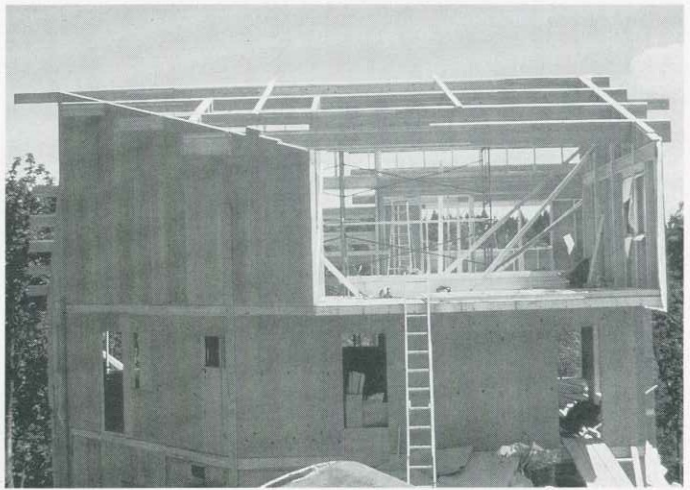
Deregulatory policies may be relaxed

Companies hope that meeting government regulations will be less expensive in the future.

The Ministry of Construction (MOC) sponsored a questionnaire and held hearings on the market for prefabricated homes this summer. It spoke both with foreign home dealers and domestic construction companies.

According to MOC officials, industry people "asked for a simplification of many regulations from importing through building." MOC responded by forming a committee to handle their grievances, although no specific proposals have emerged yet.

The Ministry of International Trade and Industry (MITI), whose Agency of Industrial Service and Technology han-



dles JIS matters, also seems to favor deregulation. Managers confirm that internal talks have focused on foreign-made, prefabricated homes. Once again, no specific proposals have emerged yet, but foreign companies "will be pleased," MITI says.

Unlike MITI and MOC, the Ministry of Agriculture, Forestry, and Fisheries (MAFF), which handles JAS matters, is not considering the case of imported homes. "We are not planning special measures for imported woods," says one MAFF official.

Despite MAFF's conservatism, Japan's market should become friendlier both for companies and consumers. After 20 years of stagnant sales, foreign firms have a real chance to expand their business here. To exploit this opportunity, they will need to cooperate with the government. Selling 50,000 units is still not guaranteed, but with JETRO's assistance and ongoing deregulation, lower prices and a sales boom are possible. ■

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