

Property Market Remains in Doldrums

Condominium market faces rigorous readjustment

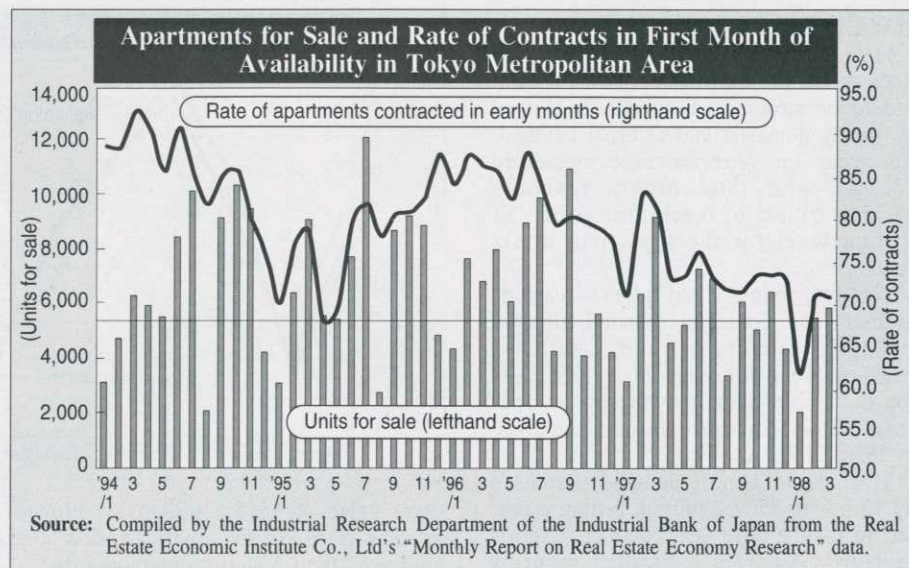
The Tokyo metropolitan area apartment market entered a readjustment phase at the beginning of 1997, marking the conclusion of a three-year boom of around 80,000 units per year. In other words, supplies remained at previous high levels as suppliers converted land stocks accumulated during the boom into properties, but purchasing decisions declined broadly on the demand side, leading to a widening supply and demand gap. Demand slowed from the beginning of 1997 as a result of the significant backlash following the burst of demand growth preceding the 1996 change in the consumption tax rate and the chill in consumer purchasing sentiment due to the recession.

Additional readjustment is forecast for the apartment market in fiscal 1998. It is considered unlikely that the economic mood will improve enough to spark purchasing decisions on the demand side or that housing loan interest rates will rise. In contrast to slumping demand, high supply levels are expected to persist because, among other reasons, suppliers have already amassed substantial land inventories. As such, expectations are that suppliers will continue to struggle with increased inventories and falling prices throughout the year.

Office property market faces slight rise in vacancies

In 1997, the Tokyo metropolitan office property market supply and demand outlook improved until spring as fewer new properties came on the market. However, the slumping economy cooled tenants' inclinations to relocate or add office space from summer on, stalling office building market supply and demand gains, which also led to a leveling off, or even a slight worsening, in vacancy rates and rents.

With demand falling due to the recession, an increase in supplies of new, large office buildings has generated expecta-



tions that vacancy rates, which had declined since 1994, will rise slightly in the office building market in Tokyo's 23 central wards in 1998. Viewing the market's content in more detail, forecasts are that the tendency toward polarization between high-quality, nearly fully occupied buildings and buildings with numerous vacancies will intensify, but because the supply of superior buildings is expected to increase from 2000 on, a strong turnaround for rents is difficult to predict.

Prices for superior sites hit bottom, but overall price downturn continues

Although superior residential and commercial land prices bottomed out, the overall downturn continued in 1997. Looking at published prices for the Tokyo metropolitan area for January 1998, residential and commercial land prices declined 3% and 8.2%, respectively, compared to the year before, although the margin of decline for both narrowed.

While prices for some superior commercial sites will start moving upward, 1998 land prices as a whole are expected to continue to lag due to the repercussions of the recession. Residential land

prices in particular are expected to once again face a widening margin of decline as apartments enter a rigorous readjustment phase.

Focus on creation of real estate securitization

The focus in 1998 will be on efforts to create systems for real estate securitization to spark real estate investments. Interim issues will include the rapid formulation and enactment of the Special Purpose Company law, designed to promote real estate securitization, along with the development of systems to disclose information to investors.

Parallel to the creation of securitization instruments, it is also to be hoped that the creation of an environment designed to increase the feasibility of real estate development, the industry's core business, through development of roads and other infrastructure in urban areas, more flexibility in land use allocations, and revision of fixed asset taxes and rental land and property laws, among other measures, will be seriously discussed.

(Maeda Kazuhiko, senior economist)