Homeownership in Japan's Troubled Economy

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- Around 60% of households in Japan are currently homeowners—this represents a slight reversal of a long-standing pattern of decline in the post-war period.
- The level of homeownership among younger people has fallen markedly over the past two decades associated with a range of factors including major affordability problems and, more recently, growing income and job insecurity.
- Household savings ratios in Japan remain exceptionally high—some three to four times the rate in the United States and twice that of the United Kingdom.
- Since the onset of the recession, residential land prices have fallen by as much as 69% in the major metropolitan areas with older condominiums being most severely affected.
- Aggregate negative equity has been estimated at £7 billion for the Tokyo Metropolitan Area, with highly geared households which purchased in the period 1988-1994 being particularly affected.

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Japan's economic problems are well known. Despite various attempts to stimulate a recovery, the economy remains stubbornly stagnant with minimal or negative real growth in gross domestic product and massive asset deflation. Both households and institutions have found themselves financially vulnerable. While Britain's housing market is experiencing a sustained if uneven boom with memories of negative equity rapidly fading, thousands of Japanese homeowners have seen their properties fall in value by as much as 60%[1] with little apparent prospect of recovery. This article provides a brief description of the homeownership sector in Japan, an up-to-date account of the impact of the Japanese recession on households, and sets out some of the institutional responses to the crisis.

PROFILE OF THE HOMEOWNERSHIP SECTOR

In 1998 just over 60% of dwellings in Japan were owner-occupied (Management and Coordination Agency, 1998). The overall level of homeownership has actually been in decline over the post-war period associated primarily with urbanization and a decline in the home-owning rural population—in 1983 the rate was just below 63%. Ten years later, in 1993, it had dipped below 60%. The current level represents, therefore, a slight reversal of long-standing trends. In the three major metropolitan areas of Tokyo, Nagoya and Osaka, 55% of dwellings are in the homeownership sector.

In terms of dwelling type, the sector consists of either single-family homes (SFH) (58%) or condominiums (38%) with a small number of terraced dwellings. The two dominant dwelling types serve very different markets. Access to urban homeownership for single or younger people is almost invariably via the condominium sector with entry to family housing coming at a later stage in the life course. It is this transition from the condominium to the SFH sector which has been severely affected by the economic downturn.

There are major differences in rates of homeownership by income, age and occupation. Homeownership rates are, for example, particularly high among those in the self-employed/family business category (79%). And historically, the stable nature of much blue-collar employment combined with their low mobility has enabled easier access to mortgages for this group. Those working for the major corporations have also had access to a range of housing-related benefits which has given them privileged access to homeownership.

Notwithstanding the benefits which have traditionally been associated with working in particular sectors and in particular corporations in Japan, the overall pattern by household income is what would be expected given the relatively high cost of homeownership (price/income ratios of 5.94 in 1996). As incomes rise, so too does the homeownership rate. For example, in 1998 the rate stood at 53% among those in the 3-400,000 yen band; among medium earners (5-700,000 yen per year) it was 67%; and in the higher earning categories (15-20,000,000 yen per year) it was almost 90%. The differential rates of ownership by income band are even more marked in the major metropolitan areas reflecting the higher entry costs.

The most striking trend is the declining level of homeownership among younger groups. As Table 1 shows, there is a marked shift in the level of homeownership beyond the age of 35, indicating the generally later entry of households into that sector in Japan compared to the U.K. The most dramatic change, however, is in the falling rate of homeownership among younger households. With the exception of the very elderly, each age cohort has recorded a decline in homeownership rates over the last two decades. Among those under 30, however, the fall has been particularly marked. As can be seen, in 1978 well over a quarter of those in the 25–29 category were homeowners. By 1998 around one in eight in this age group were owners.

Clearly, this trend cannot be solely attributed to the declining fortunes of the Japanese economy. Japanese commentators point to a range of factors, including major affordability problems prior to the bursting of the bubble and growing income and employment instability since the recession hit. Consequently, young adults tend to stay in the parental home longer. On top of this, the previously unchallenged superiority of house purchase as a means of asset accumulation has been seriously undermined by recent economic changes. Moreover, some suggest that the aspiration for living in a suburban single-family home is a less prevalent part of the Japanese dream among the new generation than it was for their predecessors.

HOUSING PRODUCTION AND RENEWAL

Another striking feature of Japan's homeownership market is the relative importance of owner-built and rebuilt dwellings (Table 2). Speculative building, while growing in significance, accounted for less than one-third of transactions in 1998. The purchase of second-hand dwellings represented less than 2% of all transactions in the same year. The basic pattern has been the purchase of a condominium as a way into the homeownership market followed by a later move to a suburban family home. After purchasing the single-family home, "trading up" is more likely to be achieved by rebuilding *in situ* rather than moving to another site (see Table 2). The common practice of rebuilding on site reflects a number of factors, primarily the limited durability of building materials, the policy framework, and cultural norms. In the past, the inheritance of the family home was more common but urbanization, combined with longevity, has considerably reduced the significance of this pattern of property transfer.

HOUSING FINANCE AND SAVINGS

The relatively low rates of mobility, the high cost of housing and the practice of rebuilding on site are reflected in high savings ratios. As Figure 1 shows, the 1980s and the early 1990s saw average savings rise

Table 1. Homeownership by Age. Percentage of All Households.

Age Group	*1978 %*	*1983 %*	*1988 %*	*1993 %*	*1998 %*
–25	9.9	7.6	4.5	3.1	3.3
25–29	27.9	24.8	17.9	13.0	12.7
30–34	44.4	45.5	38.3	31.6	29.0
35–39	58.0	59.8	56.6	51.9	48.6
40–44	66.8	68.2	66.0	64.2	62.4
45–49	73.4	73.1	71.7	70.1	69.7
50–54	77.1	77.0	75.1	73.8	73.2
55–59	79.0	80.1	79.3	77.1	76.7
60–64	77.9	78.3	80.3	79.9	79.1
65–	75.9	76.1	76.8	79.1	80.6
All Households	59.9	62.0	61.1	59.6	60.0

Source: Management and Coordination Agency (1998)

Table 2. Types and Means of Obtaining a House. Percentage of All Transactions.

	Purchased Ready-Built %	*Purchased Second-hand %*	*Owner-Built %*	*Rebuilt %*	*Inherited %*
1973	19.9	—	43.3	33.6	—
1978	24.8	2.7	42.6	28.0	1.8
1983	29.1	2.9	40.6	25.4	2.1
1988	24.5	3.0	41.7	28.5	2.3
1993	23.3	2.5	39.7	33.0	1.5
1998	30.4	1.8	38.5	28.1	0.6

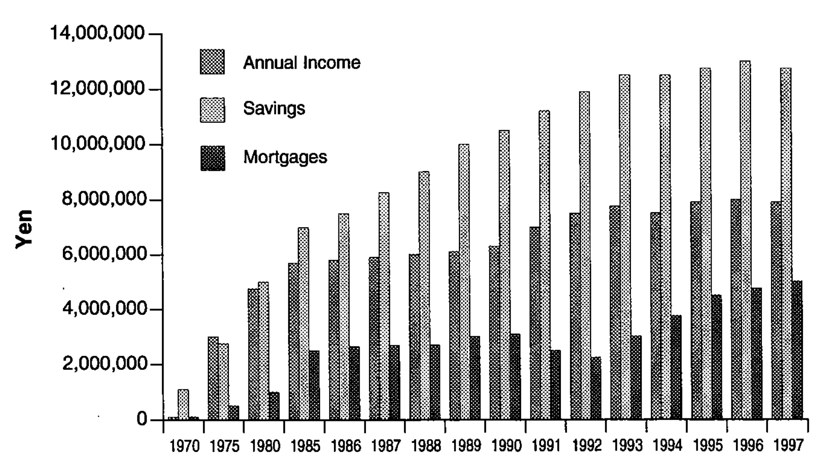
Source: Management and Coordination Agency (1993, 1998) steadily relative to incomes and outstanding mortgages. While household savings ratios in Japan have fallen marginally since the onset of recession, they still remain at three or four times the level of the U.S. and twice that of the U.K. In 1995, the household saving ratio (household savings/household disposable income) was 13.1 in Japan, compared with 4.8 in the U.S. and 7.4 in the U.K. High savings ratios and high house prices are reflected in mortgage repayment terms which are typically 35 years for new properties. Aggregated data for 1990 to 1996 show that overall, institutional loans account for around 57% of the purchase price. A mere 1% comes from family or relatives, with savings representing a third of the required finance. The sale of a previously owned property only accounts for 6% of the value of properties purchased. The implication is that saving to purchase is a longer term process than in, say, the U.K.—entry to homeownership comes later when some of those accumulated savings are invested in the dwelling.

THE RISE AND FALL OF LAND AND PROPERTY VALUES

As can be seen in Figures 2 and 3, the price of residential land rose steeply in the Tokyo Metropolitan Area from 1985. While the general consumer price index and construction costs remained relatively stable, condominium prices rose steadily. In the Tokyo area, the years 1987 and 1988 saw residential land prices rise by 22% and 69%, respectively. In the same years, the national averages were 8% and 25%. Between 1986 and 1991, the average price of a condominium in the Tokyo Metropolitan Area almost doubled in value. At the peak year of the boom, in 1987, condominium prices rose by 37%. As in Britain, there were regional differences in the pattern of price inflation and subsequent falls. The Tokyo Metropolitan Area led the way both in terms of the timing and the extent of the house price inflation. And while price inflation had begun to slow by 1988 in the Tokyo area, the Osaka and Nagoya areas continued to experience sharp increases. By the end of 1991, however, prices in all metropolitan areas had begun to fall and have continued to do so. The national residential land price index (1990=100) recorded percentage falls of 9.7% in the second half of 1991.

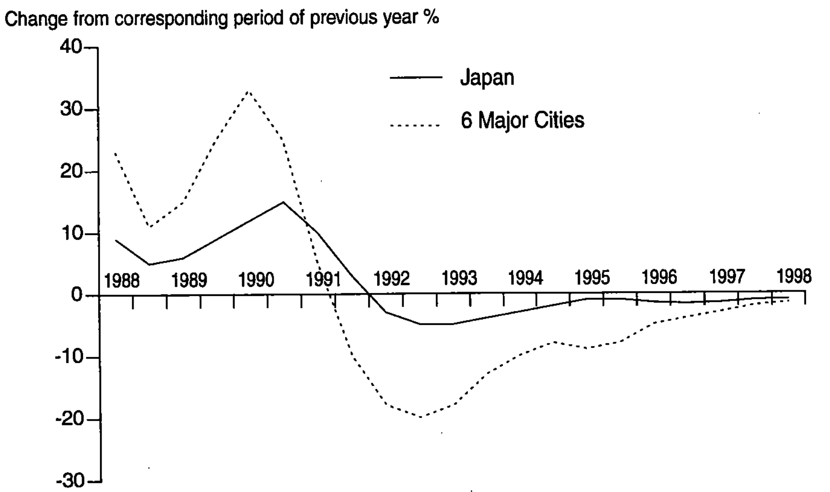
Figure 2 shows that the severity of the rise and fall in residential land prices was much steeper than the national average in the six major cities. For example, in September 1992 prices had fallen by 21% on the previous year in the major cities but by only 5% nationally. Indeed, the steepest annual fall nationally was 5% in 1993 when prices in the major cities fell by a further 19%. In terms of property prices, the average price of a new condominium in the Tokyo Metropolitan Area rose by 37% in 1987 and by a further 25% in 1988 (Figure 3). Prices more than doubled between 1986 and 1990. Prices then fell sharply: by 6% in 1991, 18% in 1992 and 7% in 1993. Estimates of the extent of negative equity have been produced using simulation models. There have been no specific household studies and data are only available for the Tokyo area. In 1999, the NCB Research Institute estimated that 280,000 households who had purchased a condominium in the Tokyo area between 1988 and 1994 had negative equity (NCB Research Institute news release, 14 September 1999). Within this group, it was those who purchased in 1990 and 1991 who had the highest levels of negative equity and were most widely affected. On average, households had 12,000,000 yen (£60,000) of negative equity. The total amount of negative equity for the whole of the Tokyo area was estimated to be around £7 billion. Second-hand condominiums experienced even steeper reductions and have continued to do so in the context of an apparent bottoming out of prices sectors.

Figure 1. Average Household Annual Income, Savings, and Mortgages



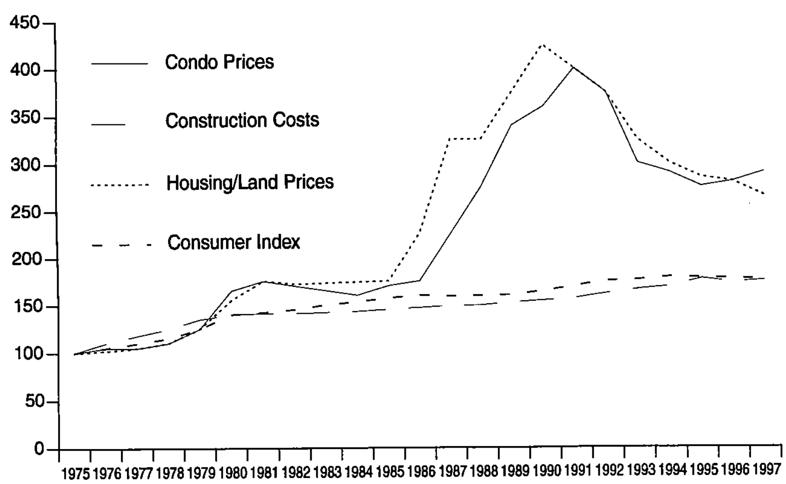
Source: Ministry of Construction (1998)

Figure 2. Land Price Indexes in Urban Areas (Land for Residential Use)



Source: Government Housing Loan Corporation (1999)

Figure 3. Housing/Land Prices, Condo Prices, Construction Costs, and Consumer Index in Tokyo Metropolitan Area, 1975=100



Source: Ministry of Construction (1998)

WHO WERE THE MAIN CASUALTIES?

As in Britain, a particular cohort of purchasers bore the brunt of recession in the residential property market;

- Those in their 30s and 40s with children who bought a house in the late 1980s and early 1990s.
- Those with high mortgages and expensive houses.
- Those who suffered job/income insecurity (eg., redundancy, salary cut).

However, while the recession had widespread effects on job security and income growth, it was inevitably a minority of home-owning households which were affected. General market activity contracted and mobility between the condominium and single-family home market was reduced. It had been usual for people to trade up to new condominiums after six to 10 years from the date of purchase. In 1990, 59% of second-hand condominiums were less than 10 years old. By 1998 this figure had dropped to 28.5%, indicating a decreased level of mobility among those owners who bought at the peak of the bubble period (NCB Research Institute news release, 14 September 1999). Older, more established homeowners have accumulated substantial equity and can weather the storm, unless job loss or some other change in personal circumstances creates additional difficulties.

Similarly, those seeking to purchase in recent years face lower price income ratios and more affordable housing. The worst impact has been felt by lower-income households, occupying low value, older condominiums on the periphery of cities. Land values are relatively low and have fallen disproportionately in these peripheral locations. Moreover, refurbishment and rebuilding activity has declined, adding to obsolescence and further depressing prices. Often these older condominiums are occupied by older homeowners with various health problems. The payment of service charges has also proved to be a rising problem for condominium owners in the recession. Other casualties have been those who took out low interest, five-year fixed mortgages at the height of the housing boom. Many households have experienced an increase in housing costs at the end of the fixed period (1.2 to 1.5 times more than the initial five years) which has coincided with falling incomes and property values. It is worth noting that the later age of entry into homeownership among Japanese households (compared with Britain) means that these rising housing costs have often impacted at a stage in the family life course when other household expenses are at their peak and household incomes have leveled off. In particular, the cost of children's education often rises with age.

INSTITUTIONAL RESPONSES

The severity of the recession and the pivotal position of housing investment to the wider economy provoked an urgent response by the Japanese government in late 1998. The dominant element of Japan's mortgage market is the Government Housing Loan Corporation (GHLC). This was established in 1950 as the sole government housing loan institution and finances a third of all new construction in Japan. The GHLC initiated a number of policy changes in an attempt to aid economic recovery and ameliorate the difficulties faced by some groups in repaying their housing loans. These measures included a reduction in the standard interest rate from 2.55% to 2% and an increase in the maximum loan amount for new purchase and home improvement. These policy changes were designed to accommodate higher space and building standards and to reverse a general decline in improvement activity. A number of measures were also introduced to assist homeowners in difficulties which could be attributed to the recent recession:

- Housing advice services were strengthened for those seeking loans.
- Repayment terms were extended by a maximum of 10 years for those whose salaries had been reduced, those who faced bankruptcy or who had lost their jobs. Eligibility for this extension was subject to a maximum household income limit and an assessment of a household's ability to maintain payments for those who were unemployed and whose income had been reduced by more than 30%.
- A three-year deferment of loan repayments was available in addition to a 10-year extension in the repayment period. During the deferment period, the interest rate was also reduced to ease the burden of subsequent repayments.

These drastic measures only applied to households with loans from the Government Housing Loan Corporation. However, despite considerable publicity, by the end of 1999, the impact had been fairly marginal with only around 1% of borrowers applying for assistance.

For those with mortgages from the private banks, most typically those in the higher earning categories, various measures were introduced to assist mobility. Measures similar to the negative equity mortgages introduced in Britain are offered by some lenders to assist mainly employment-related moves. This involves a combination of public (GHLC) and private loans to pay off existing debts and purchase another dwelling. Special lower interest rates and tax relief have also been introduced in this context. Some major banks such as Asahi and Fuji have linked up with particular estate agents to enable trading up for higher income groups in what are termed "secure transactions." Such schemes are targeted on those with well paid secure jobs in the major corporations and in the civil service.

CHANGING ATTITUDES?

Although housing is now more affordable, it has become considerably less attractive as an investment. Housing, and more specifically the land on which it sits, has traditionally been regarded by Japanese households as a key element of one's social security for the future and in retirement. However, trends in regularly conducted opinion surveys suggest a growing skepticism towards house purchase among white-collar workers during the 1990s. While the majority of those questioned in 1999 still wanted to own a home (e.g., 65% in the Tokyo area), there is increasing reference to the negative side of homeownership (Office of the Prime Minister, 1999).

The housing and land market is perceived to be highly volatile and the labor market much less secure. The combination of these factors has made households more reluctant to take out large mortgages and to wish to retain greater financial flexibility for family growth and company-related transfers. This risk aversion and disillusionment with housing and land as a safe investment is most evident among young people and is apparent in the decreasing levels of entry to homeownership. There is also evidence that some households in the rental sectors are choosing to rent for reasons of choice rather than constraint. In the period 1988 to 1996, as the recession continued, a decreasing proportion of both public and private renters mentioned high "housing and land costs" as a reason for renting and an increasing proportion referred to the "uncertainty of land prices in the future" (Economic Planning Agency, 1998).

Despite the experiences of recent years, homeownership remains the majority preference and will continue to do so. As in Britain during the early 1990s, institutions have become more circumspect in their lending policies and households more cautious about how much they borrow. The easy availability of 100% mortgages contributed to the growth of the bubble economy and 80% borrowing is now the norm. Both institutional and individual memories of negative equity, indebtedness and immobility can, however, rapidly fade and be restricted to a diminishing group of long-term casualties once the housing market recovers. It remains to be seen whether there has been any deep-seated shift in attitudes towards house purchase. Other structural factors are, however, also important. Japan's population is aging at a faster rate than any other advanced economy and fertility rates have fallen dramatically. Demography will, therefore, contribute significantly to the future pattern of demand and indicates a shrinking first-time buyer market and expanded possibilities for schemes and policies aimed at aging homeowners.

NOTE

[1] For example, in inner Tokyo, it was estimated that a condominium newly-built in 1990 with a purchase price of Y60,670,000 (£303,350) was only worth Y25,620,000 (£128,100) in 1997 (NCB Research Institute news release, 14 September 1999).

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