

The Changing Context of Home Ownership in Japan

Yosuke Hirayama

Kobe University

JAPAN

Introduction

The housing system in Japan after the Second World War has been focused on the expansion of home ownership. The economy developed at a striking pace, resulting in an increase in middle-class families who acquired and lived in their own houses. Since land and housing prices rapidly and continuously rose, owning a house, which was accompanied by a capital gain, became an effective means of acquiring an asset. The central government took the initiative in establishing a system which aimed at promoting home ownership. The GHLC (Government Housing Loan Corporation), an agency of the government, has been providing people with a long-term, fixed low-interest loan for home purchase.

Over the past two decades, however, the traditional framework of the housing system has lost its effectiveness with a series of shifts from a robust economy to economic uncertainty, from capital gains to capital losses, from a cohesive society to social fragmentation, and also from state intervention to a deregulated market. The bubble economy, which started with an abnormal rise in land and housing prices in the latter half of the 1980s, collapsed at the beginning of the 1990s. Since the bubble burst, a deep and prolonged recession has been experienced. Land and housing prices have dropped sharply for the first time since the end of the war. Owner-occupied housing has come to generate capital losses and the security of real estate assets has been undermined. The government has begun to retreat from housing policy and to entrust housing and its related financing to an increasingly deregulated market. It was announced in 2001 that the provision of GHLC loans would be abolished in the foreseeable future.

The 1990s has been called the 'lost decade' in Japan. The direction of the housing system has become less and less transparent under the fast moving conditions. The Japanese people are now wondering whether or not the first decade of the twenty-first century will become another 'lost decade'. This paper illustrates an empirical picture of the changing context of home ownership in present-day Japan.

After the Bubble Burst

Economic conditions for the housing system have become more uncertain over the past two decades because of economic globalisation, financial deregulation and the formation of a more competitive business environment. The rise and fall of the bubble economy played a key role in restructuring the environment surrounding housing.

The bubble economy appeared in the latter half of the 1980s. The abnormal upsurge in the prices of housing and land started in Tokyo and spread to Osaka, Nagoya

and other large cities. Between 1980 and 1990, price-income ratios in the Tokyo metropolitan area rose from 5.0 to 8.0 times for a condominium and from 6.2 to 8.5 times for a ready-built, single-family house (Ministry of Construction, 1996, 24). The direct cause that created the bubble was the deregulation of finance (Tanaka, 2002). As a result of the easing of monetary control, surplus capital was injected into the real estate sector. With the Japan-US trade friction as a background, the Japanese yen immediately appreciated and interest rate was rapidly lowered after the Plaza Agreement in September 1985. Although banks had mainly been financing investments in plants and equipment, they increased the amount of finance for real estate as big companies began to obtain capital from equity finance in the 1980s. Once land prices began to rise, all kinds of enterprises joined real estate-related corporations in a rush to invest in real estate.

The collapse of the bubble economy began in Tokyo in 1989, and spread to other cities. Land prices have been declining since the beginning of the 1990s. The sustained fall in land prices has thrown Japanese society into total confusion. Since the bubble burst, a serious recession has continued with minimal or negative real growth in GDP. The banking sector was plunged into crisis as a huge amount of bad debts were generated (Watanabe, 2001). The stock price index (TOPIX), which rocketed during the bubble period, dramatically dropped from 2,881.4 at the end of 1989 to 773.1 by April 2003. The tremendous decline in the stock market has deepened the recession and the crisis of the banking sector.

Stability of employment and income has been lost. Post-war Japanese society is sometimes called a 'company society' - many companies adopted a lifelong employment system and the seniority system for wages and promotion to form the models of 'company as a community' and 'company as a family'. Many employees and their families lived their lives belonging to and depending on their company. Companies, however, have been restructuring by downsizing and abandoning the lifelong employment and seniority systems as a more competitive business environment has been formed with the prolonged recession. It has become uncertain whether or not the 'company society' can be maintained.

Over-Construction of Housing

House prices have been continuously falling since the early 1990s. Owner-occupied housing, which used to be an effective means of producing capital gain, began to generate capital loss. It was the bursting of the bubble that directly caused the deflation of housing property. Underlying the fall in house prices, however, there has been an over-construction of owner-occupied housing.

In post-war Japan, housing construction and the economy have been closely intertwined and housing policy has traditionally been subordinate to economic policy (Hirayama, 2003a). With the oil crisis of 1973 as a turning point, the government began to increase the provision of GHLC loans and housing policy became more of a measure to stimulate the economy. The GHLC created a series of new programmes and aimed at enabling people to acquire their own homes. The Step Repayment System in which the

amount of repayments was set at a low level for the first five years was introduced in 1979. A housing loan system for two generations was established in 1980, enabling children to take over their parent's loan (Hirayama and Hayakawa, 1995).

During the bubble period, the Government promoted the construction of owner-occupied housing with the intention of easing the Japan-US trade friction through expanding domestic demand. After the collapse of the bubble, the government increased the size of the GHLC loans and further improved the loan conditions in order to revive the economy. The GHLC's basic interest which was 5.5% in September 1990 fell to 2.2% in March 2003. The repayment amount for the first five years in the Step Repayment System was lowered in 1993 and 1994.

The continuous mass-construction of housing resulted in accelerating the house price deflation after the burst of the bubble. There was a housing shortage until the first half of the 1970s. The rapid inflow of population into urban areas put increasing stress on the demand for housing. Urbanisation, however, began to subside in the latter half of the 1970s. The number of houses exceeded that of households nationwide for the first time in 1968, then in every prefecture in 1973. Since then, the vacancy rate has constantly increased from 7.6% in 1978 to 9.8% in 1993 and to 11.5% in 1998 (Statistics Bureau, 2001, 3-5). Housing construction, until the 1970s, had been supported by strong demand. On the other hand, housing policy, since the 1980s, has been propelling the construction of a huge amount of housing in order to stimulate the economy despite the fact that there has been an excess in the amount of housing. This excess has promoted the deflation of housing in the post-bubble era.

The Crisis of Home Ownership

Households who became homeowners during the bubble period have been suffering from serious asset deflation since the beginning of the 'lost decade' (Forrest et al., 2003; Hirayama, 2002, 2003a, 2003b). Price fall was greater in second-hand housing than in newly built housing and in condominiums rather than single-family housing. In other words, second-hand condominium prices have depreciated dramatically. The average price of a second-hand condominium between 1990 and 2001 went down from 40.8 million yen to 24.2 million yen in Tokyo and from 33.5 million yen to 21.8 million yen in Osaka.

The reason for the prices of second-hand condominiums dropping sharply in big cities in the 1990s was that a large quantity of new condominiums was constructed. A combination of factors such as the decrease in housing prices, a continuous low interest rate and the expansion of housing loan supply by the GHLC spurred people into purchasing newly-built condominium units. As the market for new condominiums expanded, the prices of second-hand ones dropped.

As a countermeasure to combat the bubble economy, the government continuously placed importance on the acceleration of housing construction. A significant result is that homeowners have become deeply indebted. The total amount of outstanding housing loans swelled from 48,229 billion yen in the 1980 fiscal year to 191,203 billion yen in the 2000

fiscal year. The ratio of outstanding housing loans against GDP rocketed from 19.4% to 37.3% during the same period.

The family budget of households, who have a loan for housing, deteriorated in the 1990s. Households who purchased housing during the bubble period had a large amount owing. Though housing prices decreased in the post-bubble period, many households paid only a small deposit and ended up taking out considerable loans to acquire a house because of the expansion of the GHLC's loan provision. In the prolonged recession, an increasing number of households find it difficult to repay their housing loans. The number of GHLC loans in default over 6 months increased from 14,205 to 42,333, and the total amount outstanding on these loans increased rapidly from 194 billion yen to 655 billion yen between 1995 and 2002.

Hot or Cold

The housing market has begun to split post-bubble urban space into 'hot places', where the market is active, and 'cold places', where the market is inactive. Until the 1970s, cities were expanding simply and steadily, and the housing system was working along with the growth of urban areas. In cities since the bubble burst, however, the 'hot and cold places' have been appearing in complex ways.

Condominiums built during the bubble period have lost much of their market value thus becoming a factor in the creation of 'cold places'. There are two kinds of bubble condominiums, namely 'suburban bubble condominiums' and 'super-luxury condominiums'. More units of the former than those of the latter can be seen. Though a household which moves to the suburbs generally desires a single-family house, families with moderate incomes bought condominiums in the suburbs during the bubble period since housing prices went up to such an extreme. The marketability of a condominium unit of this type nose-dived in the post-bubble period. Households who bought a suburban condominium belong to not so high-income groups. They are repaying overwhelming amounts on the loans for their housing whose value is rapidly declining. Super-luxury condominiums were built in city centres and high-class residential areas in the latter half of the 1980s. A comparatively small number of such condominium units were acquired by the rich and have generated a huge capital loss during the post-bubble period.

At the bottom level of the second hand housing market, the stock of 'bargain priced condominium' of less than 10 million yen has increased. Many of these are old, located on the periphery of a city and have a small floor area. There have even appeared some second hand units of two to three million yen, which is cheaper than a new car. They are becoming increasingly dilapidated and losing market potential as vacancy rates rise, the amount of unpaid management fees accumulates and the proportion of low-income residents increases.

'Cold places' include some new but unpopular residential estates, that were developed in the 1990s but have a lot of unsold houses remaining. A large quantity of housing was built in the post-bubble period, resulting in the weakness of the marketability

of residential estates which were developed in unfavourable places and were priced at an unreasonably high level. Conflicts increased between developers who intended to dispose of the remaining houses by lowering their prices, and dwellers who had already bought a house in the estate.

In the post-bubble central metropolitan areas, some 'hot places' have been generated by many condominiums newly constructed. In the Tokyo area, a boom of large-scale construction of tower-type condominiums of over 20 stories is being seen. With the persistent recession, many enterprises have begun to dispose of large tracts of land property, which are being utilized for new condominium developments. The average price of housing has decreased in the post bubble period. However, the large-scale condominiums built in the central and luxury areas of Tokyo include some super-high priced units. In the case of a 34 storied tower-type condominium with 314 units built in the Aoyama area, considered as one of the most fashionable districts in Tokyo, the price of best-selling units was over 90 million yen and the highest price was 710 million yen.

The birth of the 'hot places' made the stagnation of 'cold places' even worse. The increase of large-scale condominium developments in city centres has been accelerating the deflation of 'suburban bubble condominiums', multiplying the amount of 'bargain priced condominiums' and making the sales of new but unpopular residential estates even tougher. Prices of all kinds of urban housing skyrocketed during the bubble period. In contrast, post-bubble housing prices have been split into extremes within the same city - some costing several million yen and others, over 100 million yen.

Pro-Growth Urban Policy

The government has been continuously deploying a pro-growth urban policy to invite private investment into urban development and to deregulate urban planning and the building code (Igarashi and Ogawa, 2003). Under the expanding global economy, urban policy has been setting importance on the redevelopment of big cities, particularly Tokyo as a 'global city', since the 1980s. The Nakasone administration, which was in office from 1982 through 1987, launched the 'Urban Renaissance' policy and aimed at the restructuring of Tokyo. Urban planning was deregulated, large tracts of national land were disposed of by auction, and a large quantity of private capital was introduced into urban redevelopment (Hayakawa and Hirayama, 1991). The 'Urban Renaissance' policy formed the groundwork for the bubble economy and triggered over-investment into the housing, land and real estate markets.

During the 'lost decade', the status of the Japanese economy within the global economy and the status of Tokyo as a 'global city' were weakened. The expansion of the global economy, which was regarded as an opportunity for growth in the 1980s, has been regarded as the formation of competitive phenomenon since the 1990s. (Saito and Thornley, 2003). The government has been trying to regain the status of Japan by stimulating economic recovery using the restructuring of big cities, especially Tokyo, as a catalyst. Urban planning and the Building Code were relaxed several times in the 1990s to

encourage economic recovery from the post-bubble recession (Harada, 2001).

The Koizumi administration, founded in April 2001, having placed 'Urban Regeneration' as a key policy, has been trying to further expand private investment into urban redevelopment in radical ways. In 2002, the Urban Regeneration Special Act, which designates some special zones where construction-related regulation could be greatly relaxed, was enacted. The Urban Redevelopment Act was amended in the same year to introduce a new type of redevelopment which gives the private sector an eminent position.

The 'Urban Renaissance' policy of the Nakasone administration promoted the occurrence of the bubble economy. On the other hand, the 'Urban Regeneration' policy of the Koizumi administration is aiming at the disposal of bad performing loans and economic stimulation. Both, however, have something in common - they are both pro-growth urban policies. At the beginning of the 21st century, many urban redevelopment projects have inspired the occurrence of 'hot places', and therefore, accordingly also have played a part as a promoter making the 'cold places' even more stagnant, resulting in the acceleration of the split in urban spaces.

Dysfunction of the Housing Ladder System

A housing ladder system has encouraged households to move from a rental house to an owner-occupied house, and from a condominium to a single-family home. In post-war Japan, a social mainstream was produced by middle-class families who acquired and lived in their own homes (Hirayama, 2003b). Many people joined and climbed up the housing ladder, aiming at becoming a homeowner. Those who owned their homes could claim that they were a part of mainstream society.

The ladder system was effective under conditions where most of society is occupied by a stable middle-class and home ownership is accompanied by capital gain. After the burst of the bubble, however, private ownership of a house was increasingly accompanied by risk, incomes have stopped increasing and employment stability has become fragile. The size of the middle-class has started shrinking and economic disparities have been amplified (Sato, 2000; Tachibanaki, 1998).

Socio-demographic changes are also factors that confuse the housing ladder system (Hirayama, 2003a, 2003b). The system was based on the supposition that most people lead a 'standard life course' and form a 'standard family' of a couple and child(ren). Japan is, however, one of the nations where an increase in the elderly and a decrease in births are most prominent (Japan Statistical Association, 2002). The character of marriage has been changing greatly due to postponement of marriage, a rise in the number of people who choose not to marry and people who do not have children even if they do get married. The proportion of households made up of couples and their children is dropping and the number of single households, couple-only households and elderly-only households is rising. The definition of 'standard life course' and 'standard family' today has become vague.

In the 'company society', major companies had systems of employee housing of very low rent, internal saving for housing acquisition and low-interest loans for employees

who were buying a house (Hirayama, 2003b; Ohmoto, 1996). These systems were embedded in the housing ladder. Employee housing was supplied for young employees at the early stage of the ladder, while employees at the later stage of the ladder made use of the company loan system to purchase a house. More and more companies in the 1990s, however, started to unload employee-housing properties and abolish internal saving and loan systems for house purchase as the recession deepened. Many employees have begun to lose their housing ladder which used to be reinforced by the companies.

Marketisation of Home Ownership

The state played a leading role in the construction of a housing system in the post-war period in Japan. Housing Policy by the national government formed a framework to build a relationship between the central of home ownership, economic growth through housing construction and an increase in the middle-class. The present government, however, began to retreat from housing policy and to promote the marketisation of housing.

Housing policy until the first half of the 1980s had a clear purpose of improving housing conditions. The goals in relation to the Five-Year Housing Construction Plan were transparent: the goal set in 1966 was that housing for all households was to be ensured; the one set in 1971 was that a room for everyone was to be guaranteed; the one set in 1975 was that substandard housing would be eliminated by 1985. In contrast, what the post-bubble housing policy has been socially aiming at is obscure. Housing marketisation appears to have become the sole strategy of housing policy. What marketisation is to be promoted for is expressed only by business and economy-related terminology. What kind of housing should be built for whom is not clear.

The home ownership policy of the Koizumi Administration is a watershed in the history of the government's housing policy. The administration planned to abolish this organisation within 5 years. The new corporate body replacing the GHLC is scheduled to retreat from the primary market of housing loans and be concerned only with the secondary market in which housing loans changed into bonds are circulated. Private banks have been calling for the expansion of the private housing loan market because there is a tendency of enterprises to procure funds not only by borrowing from banks' loans but also by equity financing and because the risk associated with housing loans for individuals is comparatively small. In order to reduce government spending, the Koizumi Administration judged it to be effective to do away with the GHLC which is a huge financial burden. There have been, however, a lot of doubts being raised whether private banks' housing loans can take the place of the GHLC's long-term, fixed and low-interest loans. A stable secondary market is required for private banks to supply loans under the same conditions as the GHLC. There exists, however, almost no secondary market in Japan at present and whether the new corporate body, the successor to the GHLC, can establish it within a 5 year period remains to be seen. While the GHLC has been supplying moderate-income households with loans, private banks are predicted to respond to demands from higher income households only.

Conclusion

The housing system which was devised immediately after the war was associated with a clear social direction. Since the beginning of the 'lost decade', however, the housing system has been losing its direction under increasingly transient socio-economic conditions. People who became homeowners during the bubble period have been bound by a capital loss only because they bought housing at the wrong time. The mass-construction of housing in the time of housing excess has threatened owner-occupied housing as an asset. The 'company-society' has begun to crumble and the effectiveness of the ladder system has deteriorated.

It will be next to impossible to maintain the mass-production of housing. Pressure from the demand for housing will be lessened in the future due to demographic changes. According to the 2002 estimate by the National Institute of Population and Social Security Research, the total population of Japan which was 127 million in 2000 will decrease from its peak in 2006 to 106 million in 2050. The pace at which Japanese society is aging is tremendously fast. The proportion of elderly people to the total population is forecasted to reach as high as 36% in 2050. In the future, investment in housing will inevitably decrease in this aging society.

The housing system encouraged the formation of a social mainstream in post-war Japan. Home ownership for middle-class families played a key role in defining the mainstream. A society which emphasized a specific direction divided those inside from those outside, creating disparities in housing conditions between owners and tenants, between family-households and single people, and between employees of the big companies and others. In today's Japan, the definition of the mainstream has become vague due to the economic stagnation and the fragmentation of society. What this means is not the easing but the rearrangement of social inequality. A society which has lost its direction generates more complex and drifting disparities in relation to variables such as security of employment, the timing of housing purchase and the balance between liabilities and assets (Hirayama, 2003b).

It is not certain at present whether or not a new housing system with a clear direction will be established. The only thing that is apparent is that the traditional housing system of post-war Japan has already been broken up and will not reappear.

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