

**TITLE JAPAN EXPORT SEMINAR DURING THE NAHB
INTERNATIONAL BUILDERS SHOW**

AUTHOR: KAZUHISA TAKABATAKE

INTERNATIONAL COPYRIGHT, U.S. & FOREIGN COMMERCIAL SERVICE AND U.S.
DEPARTMENT OF STATE, 2000. ALL RIGHTS RESERVED OUTSIDE OF THE UNITED
STATES.

SUMMARY OF JAPAN EXPORT SEMINAR

Presentation at the Japan Export Seminar at the NAHB International Builders Show 2000.

1. Introduction

In order to provide very basic information on the Japanese housing market to U.S. companies, particularly companies which have never considered business opportunities in Japan, the presentation covers the following topics:

- Size of Japanese Housing Market
- Recovery of the Japanese housing market
- Cost comparison between U.S. and Japanese homes
- Deregulation in Japan
- Differences between U.S. and Japanese housing markets
- Conclusions.

2. Size of Japanese Housing Market

According to recent statistics, the U.S. population is about 274 million while the Japanese population is about 125 million. Housing starts in the United States and Japan were 1.61 million and 1.20 million respectively in 1998. Although the Japanese population is less than 50% of that of the U.S., housing starts in Japan numbered about 75% of the U.S. Since 1998 U.S. housing starts were historically high while Japanese starts the same year were historically low, it may be said that housing starts in the United States and Japan are almost the same.

Japanese housing starts are much higher than other industrialized countries. For example, housing starts of Canada and the U.K. are 137 thousand and 188 thousand respectively in 1998. The Japanese housing market is one of the biggest housing markets in the world and it is an important market for U.S. manufacturers and suppliers of residential building products.

2. Recovery of the Japanese housing market

The Japanese economy enjoyed very high growth rates in the late 1980s, which is now known as the "bubble economy." The bubble economy burst in 1990 and since then the Japanese economy has not been recovered. The Japanese housing market has been also experiencing difficulties since 1991.

Housing starts in Japan declined by 20% from 1.7 million units in 1990 to 1.37 million units in 1991. Since then, housing starts fluctuated between 1.2 and 1.6 million units. After 1996, housing starts started declining again, from 1.64 million units in 1996 to 1.39 million units in 1997, then to 1.20 million in 1998. Housing starts in 1998 were the lowest starts since early 1980s. Monthly housing starts also continued to decline for 27 consecutive months from late 1997 to early 1999.

The following tables show annual housing starts from 1990 to 1999 and monthly housing starts from January 1999 to January 2000.

(Table 1) Japan's Total Housing Starts (1990 - 1999)

Year	Total housing starts	Change from the previous year
1990	1,707,109	2.7%
1991	1,370,126	-19.7%
1992	1,402,590	2.4%
1993	1,485,684	5.9%
1994	1,570,252	5.7%
1995	1,470,330	-6.4%
1996	1,643,266	11.8%
1997	1,387,014	-15.6%
1998	1,198,295	-13.6%
1999	1,214,601	1.4%

Source: Ministry of Construction

(Table 2) Japan's Total Housing Starts (January 1999 - January 2000)

Month	Total housing starts	Change from same month one year ago
1/99	78,359	-11.2%
2/99	86,581	-9.4%
3/99	99,757	0.0%
4/99	107,204	1.1%
5/99	101,547	-0.9%
6/99	114,505	7.3%
7/99	102,553	1.9%
8/99	107,612	8.4%
9/99	109,012	10.5%
10/99	103,658	-0.6%
11/99	104,669	8.1%
12/99	99,144	-0.8%
1/2000	91,519	16.8%

Source: Ministry of Construction

I believe that housing starts hit the bottom in 1998 and started increasing again slowly but steadily in 1999. The following table shows the seasonally adjusted annual rate of housing starts from January 1999 to January 2000. They fluctuated between 1.15 million and 1.3 million with no sign of continuous decline. Then, they increased 16% to 1.35 million units in January 2000. The trend over the last 12 months indicates that the recovery in the Japanese housing market is slow, but the most difficult time has likely passed.

3. Cost comparison between U.S. and Japanese homes

It is now well-known in Japan that a house can be built in the United States for one-half to one-third the cost of building essentially the same house in Japan. One example shows that the difference in the cost of building a house in California and a similar one in Japan was 2.6 times. The two houses had the same size and design, and were built mostly with the same building materials, although the Japanese purchaser specified a number of higher-quality building materials costing US\$1,320 more. The Japanese-built house costs almost 29 million yen, while cost of the U.S. was 11 million yen, a ratio of 2.6 to 1.

Despite the significant difference in total cost, the cost difference of building materials used to build U.S. and Japanese houses is not significant. This indicates that importing inexpensive U.S. building products alone cannot reduce the cost of Japanese homes and it is difficult for U.S. building products suppliers to claim a significant cost advantage to Japanese customers.

4. Deregulation in Japan

There are numerous regarding home construction and building products in most countries. Regulations have been one of the major barriers for U.S. manufacturers and suppliers of building products to export their products to Japan. However, deregulation of the housing sector has been continuing slowly but steadily and it has become easier and will likely become much easier for many U.S. building products to be used in Japan.

The Building Standards Law and 2x4 standards are the two most important regulations, both of which have been changing.

(1) Building Standards Law of Japan

The Building Standards Law (BSL) of Japan is the most basic and important law regarding housing construction in Japan. The BSL was revised in June 1998 and the new BSL has performance-based standards rather than prescriptive-based standards for certification of building materials and methods.

The old BSL, on the other hand, was primarily based on prescriptive standards meaning some non-Japanese building products could not be used in Japan because they were simply made of different materials than those specified in the BSL regardless of how the products would perform if tested scientifically. In the new BSL, the Japanese Ministry of Construction (MOC) will set performance criteria and as far as building products meet MOC's performance criteria they can be used in Japan. The new BSL is expected to facilitate the use of imported materials and the introduction of new methods of building in Japan.

For more information on the new BSL, please read our IMI entitled Enforcement Order of the Building Standard Law dated March 1, 2000.

(2) 2x4 standards

The North American style wood frame platform construction method (2x4) was first introduced into Japan in 1974. 2x4 standards were based on American standards, but with some modification. Prior to the revision of the BSL, the 2x4 standards were revised, becoming effective in June 1997. The new performance based 2x4 standards allow for any building products which meet required performance standards to be used for the 2x4 construction.

5. Differences between U.S. and Japanese housing markets

There are some important differences between the U.S. and Japanese housing markets and U.S. companies should understand these differences.

(1) Housing starts

Total housing starts in Japan are almost the same as the United States, but single-family housing starts in Japan are less than 50% of U.S. single-family housing starts.

(2) Construction methods

Unlike the United States, where the wood frame platform construction method is common, there are very many construction methods in Japan. The traditional Japanese home construction method is post-and-beam and still the most common construction method in Japan. A number of modified post-and-beam and prefabricated methods were developed by housing companies. The variety and number of building methods sometimes make it difficult to use same building products for different types of construction.

(3) Large Prefabricated Home Builders

In Japan, the biggest prefabricated home manufacturer, Sekisui Home, build more than 60,000 units, including condominiums, per year. A number of prefabricated home manufacturers build more than 10,000 units. These companies could be good customers for U.S. companies, but they often have their own manufacturing facilities and/or subsidiaries which supply building products to them.

6. Conclusions

The following are some conclusion of the presentation:

- The Japanese housing market is too large to overlook.
- After a nearly ten-year decline, the Japanese housing market is recovering slowly but steadily.
- Importing inexpensive U.S. building products alone cannot reduce the cost of Japanese homes and U.S. building products suppliers should take this into account when developing their marketing strategy.
- Deregulation in the housing sector is continuing and it has and will likely have positive influence on imports of building products.
- The Japanese housing market is different from U.S. housing market and U.S. companies should understand the differences in order to make effective market entry strategies.