

# THE ORIENTAL ECONOMIST

A L E R T

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## TOKYO LAND PRICES FALL 9% IN OCTOBER-DECEMBER FROM 2007 REAL ESTATE CORRECTION ACCELERATES

### Key points:

- Land price decline accelerates in Tokyo—down nearly 9% in October-December from year earlier
- This follows 23% rebound from March 2005 to March 2008 in Japan's six biggest cities
- Office rents down 2.5% nationwide from a year ago
- Real estate transactions down 80%, partly due to problems of getting financing for the deals, and REIT index down 73% from mid—2007 peak
- Prices decline in Chinese cities, stoking fears of social unrest if construction jobs shrink

### Overview

The big correction in real estate prices in Tokyo—the locale of Japan's biggest property price rebound over the past couple years—is accelerating according to a couple sources cited by *Nikkei*. Sanyu Appraisal estimates that land prices fell 8.6% year-on-year during October-December, a steeper decline than the 5.4% year-on-year fall shown in July-September. The severity of the fall naturally depends on location. In the southwest zone of Tokyo's 23 wards, prices fell by nearly 14%, but they fell 5% in eight central wards and 4% in three commercial areas of Chiyoda, Chuo and Minato (see Figure 1).

Housing prices appear to be falling more than commercial prices and the office vacancy rate, while rising, is still fairly low at 3.3% compared to nearly 10% in 1994. However, in some areas, the vacancy rate is higher. The office vacancy rate for large buildings in central Tokyo rose 0.16 percentage point on the month to 4.72% as of Dec. 31, according to one real estate firm. When the rate goes to 5% or above, the bargaining power typically shifts to tenants.

The price correction had been going on since early 2008. For the six months ending in

September, the price for residential and commercial land in Japan's six biggest cities fell to 82.4, down 2.9% from six months earlier. This is the first decline in three and a half years, according to the Japan Real Estate Institute. Tokyo, which had most enjoyed the recent years' boom, suffered a sharp fall of 6.8% over the six months, while prices in Osaka dipped 1.5%.

At 82.4, prices are still 18% below the level of 2000, when the index equaled 100. The bottom was hit in March 2005 at 68.6 and prices rose 23% from that level through March 2008. Prices are still below the pre-bubble level of 1985 (see Figure 2 and Figure 3).

Meanwhile, the same survey showed that office rents nationwide fell 2.5% from a year earlier to a level 13% above the year 2000 level.

### **Real Estate Transactions Fall 80% in October-December**

As we've reported before, real estate transactions have been falling due to the difficulty for real estate investors to raise funds from banks and others. That's because the banks worried that, with prices no longer rising, many investors would be unable to repay the loans, and because foreign investors were pulling back (see *Alert* of September 19, 2008 and follow-ups). In the aftermath of the September AIG-Lehman-Merrill collapses, this has accelerated. The value of property transactions fell 80% in October-December compared to the same quarter of 2007. For 2008 as a whole, the value of transactions halved to ¥2.8 trillion.

### **REITs Index Falls 73% From Mid-2007 Peak**

The single biggest buyer of properties during the 2005-07 boomlet was the newly created group of Real Estate Investment Trusts (REITs). The institution was so new in Japan that the Tokyo Stock Exchange did not have a REIT index until 2003. After soaring through mid-2007, the REIT index has now plunged 73% from its mid-2007 to a level 30% below its starting point (see Figure 4). By contrast, the stock market has plunged by "only" half since its peak.

### **Property Prices Fall in Chinese Cities**

China, too, is experiencing a bit of a correction in prices. In December, prices dipped a tiny 0.4% from year-earlier levels, the first such dip since such prices began being tracked in 2005. Prices in the export-intensive areas fell the most, including 15.2% in Shenzhen and 5% in Guangzhou. Even a tiny correction is significant since prices had been rising at double-digits in many cities for the past several years. Moreover, sales of property in 2008 were down 18% from 2007 levels (by value).

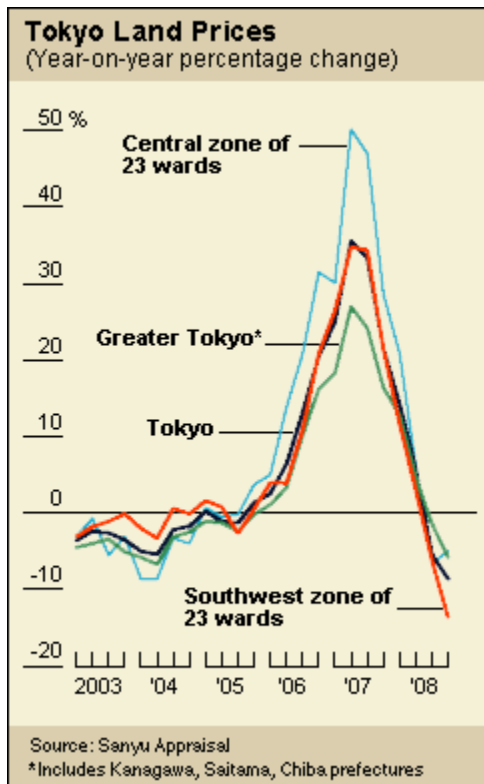
Real estate development is a key stimulus for Chinese growth. Real estate development

accounts for more than a fifth of China's fixed-asset investment, they driver of overall GDP growth. Already, this has had spin-off effects on other industries, for example, steel, half of whose output goes to construction. Moreover, 10% of the country's labor force is in construction, many of them laborers from farm areas who may need to go back. Communist Party leaders have already raised fears of social unrest stemming from this problem.

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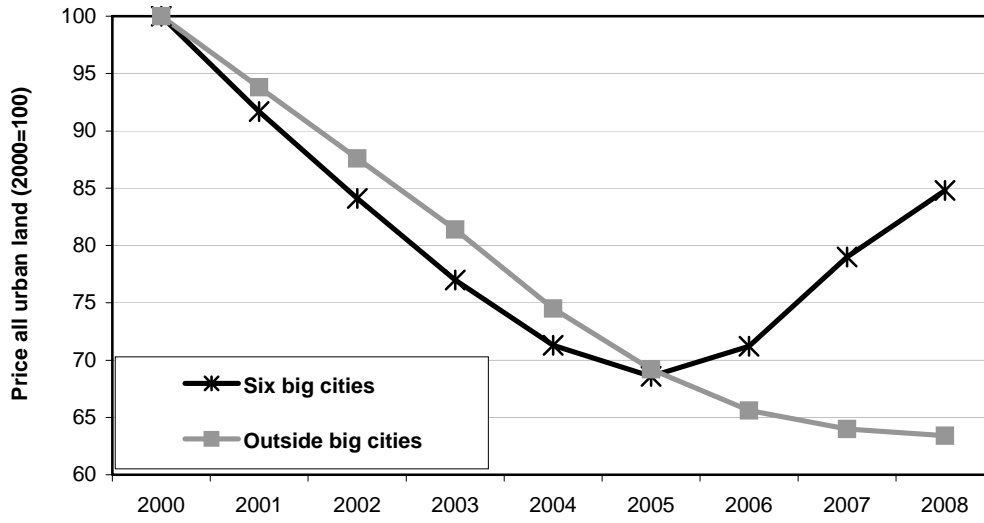
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Figure 1: What Goes Up....

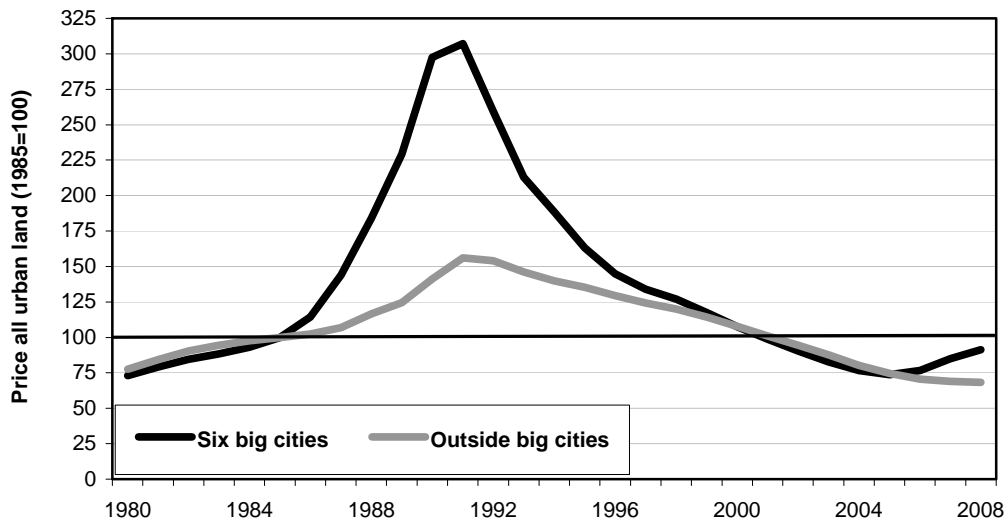


Source: Nikkei

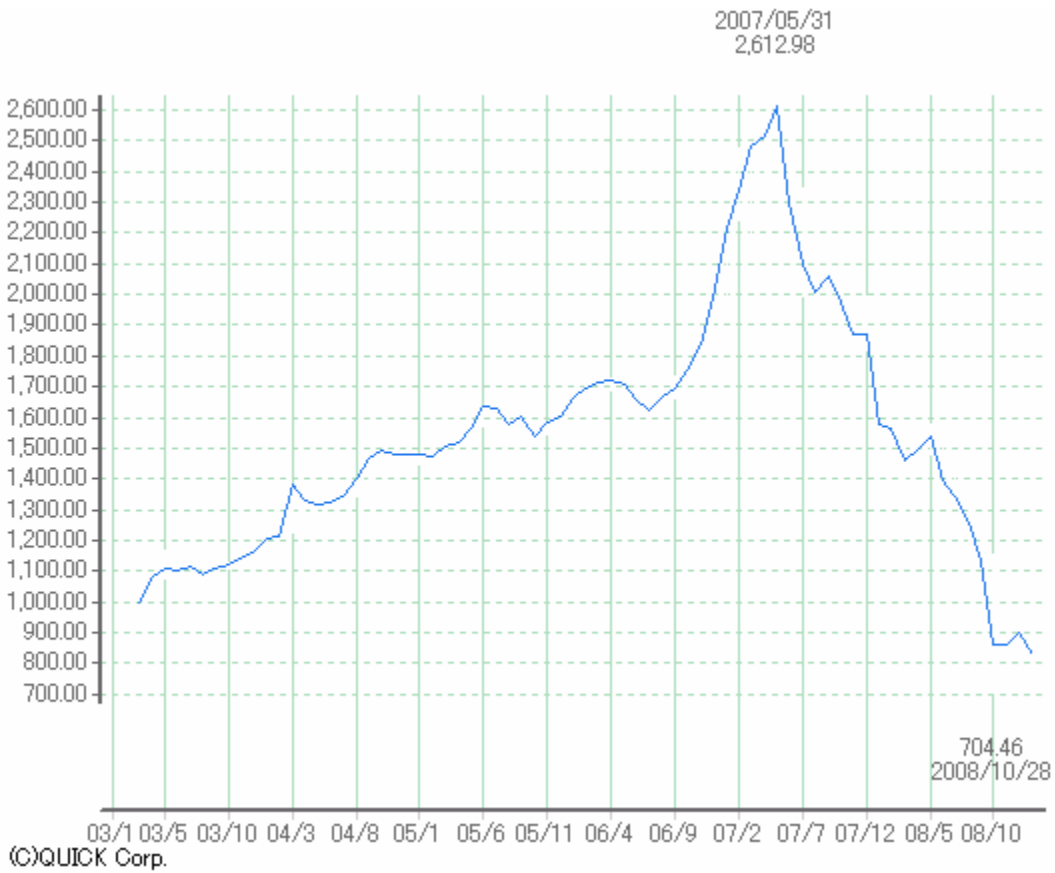
**Figure 2: Land Prices Rebound Through March 2008 in Japan's Six Biggest Cities**



**Figure 3: But Prices Still Below Pre-Bubble Level; 32% Below Outside Big 6 Cities**



**Figure 4: REIT Index Plunges To 30% Below 2003 Starting Point, 73% from Peak**



**Source:** Tokyo Stock Exchange