



Vacant Houses are Undermining Tokyo Reconsider the Relaxation of City Planning Regulations

Distortions in a “Society with Excessive Residential Supply” Created by the Industry, Government and Private Sector

Nozawa Chie, Professor, Faculty of Science and Engineering Toyo University

New Real Estate Loans Are Exceeding Those During the Bubble Economy, Reaching New Record Highs

As an city planning researcher hoping to share with as many people as possible the future risk of sustained uncontrolled housing construction in spite of the realities of the decreasing population and rapid growth in the number of vacant houses, the author published a book titled *Oiru Ie Kuzureru Machi: Jutaku Kajo Shakai-no Matsuro (Aging Houses and Deteriorating Cities: the fate of a Society with Excessive Residential Supply)* as part of Kodansha Ltd.’s Gendai Shinsho series of pocket-size paperbacks in November 2016. In February 2017, the Bank of Japan (BOJ) released data in a timely manner that supported my perspective on the problem that led to the publication of this book.

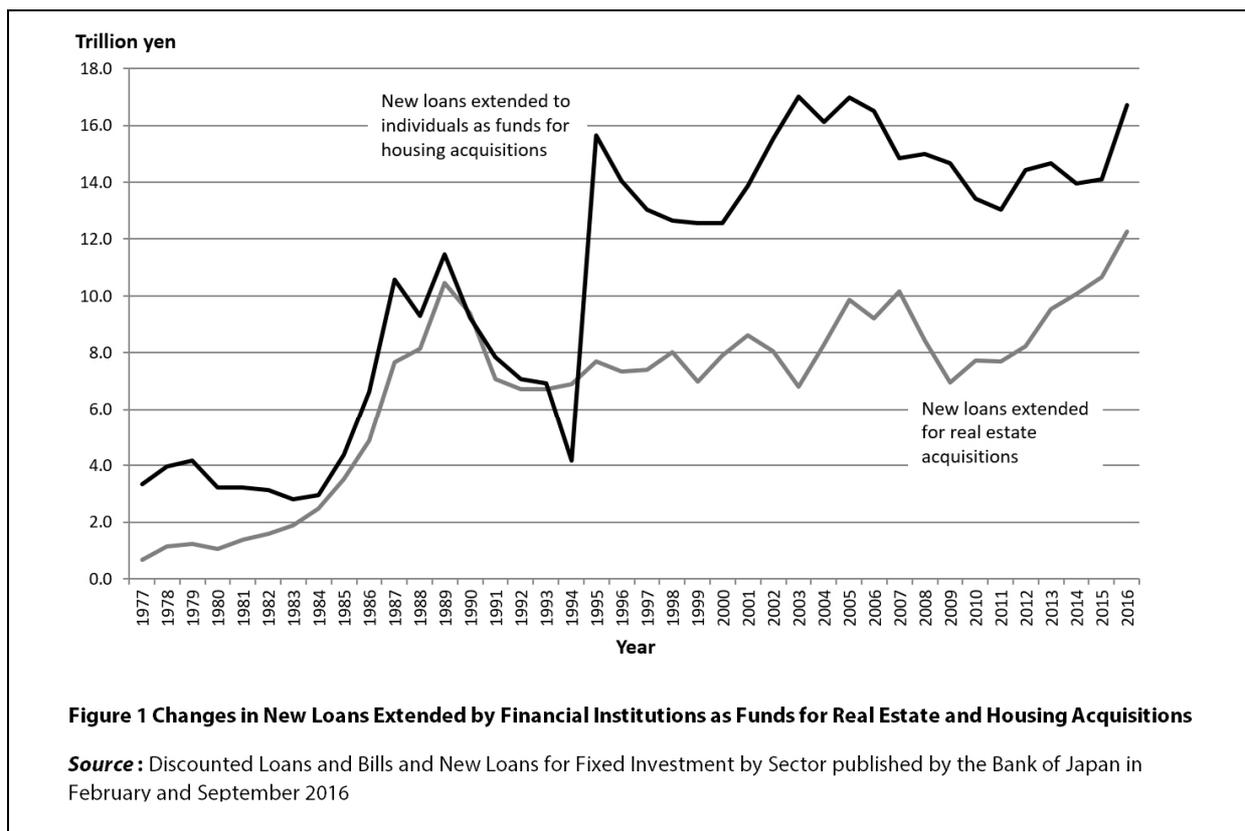


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Engineering Toyo University

According to the data published by the BOJ, new real estate loans extended by financial institutions in 2016 (Figure 1) reached 12.3 trillion yen, the highest level since 1977, when statistics became available for confirmation. For reference, the largest sum of new loans extended during the bubble economy was 10.4 trillion yen in 1989. The 2017 total means that the real estate loans supplied by banks were 2 trillion yen larger than the amount during the bubble economy. In addition, total new lending (for repayment in installments), including funds for individual residential purchases, began to rise sharply around 2014. Such loans rose to 16.7 trillion yen in 2016, showing momentum to reach the highest-ever level of 17 trillion yen, posted in 2005.

It can be mentioned that the urban development boom triggered by the decision to hold the Olympic Games in Tokyo in 2020, activated investments in real estate investment trusts

(REITs), rock-bottom interest rates and the construction boom for houses, such as high-rise condominiums and rented apartments, as a way to deal with the inheritance tax, which were factors in the background of these trends. Certainly, the construction boom for high-rise condominiums is continuing in urban areas. In suburban districts and provincial cities, residential districts for detached houses under development and rented apartments under construction can also often be found, which raises speculation about whether demand actually exists in those areas.



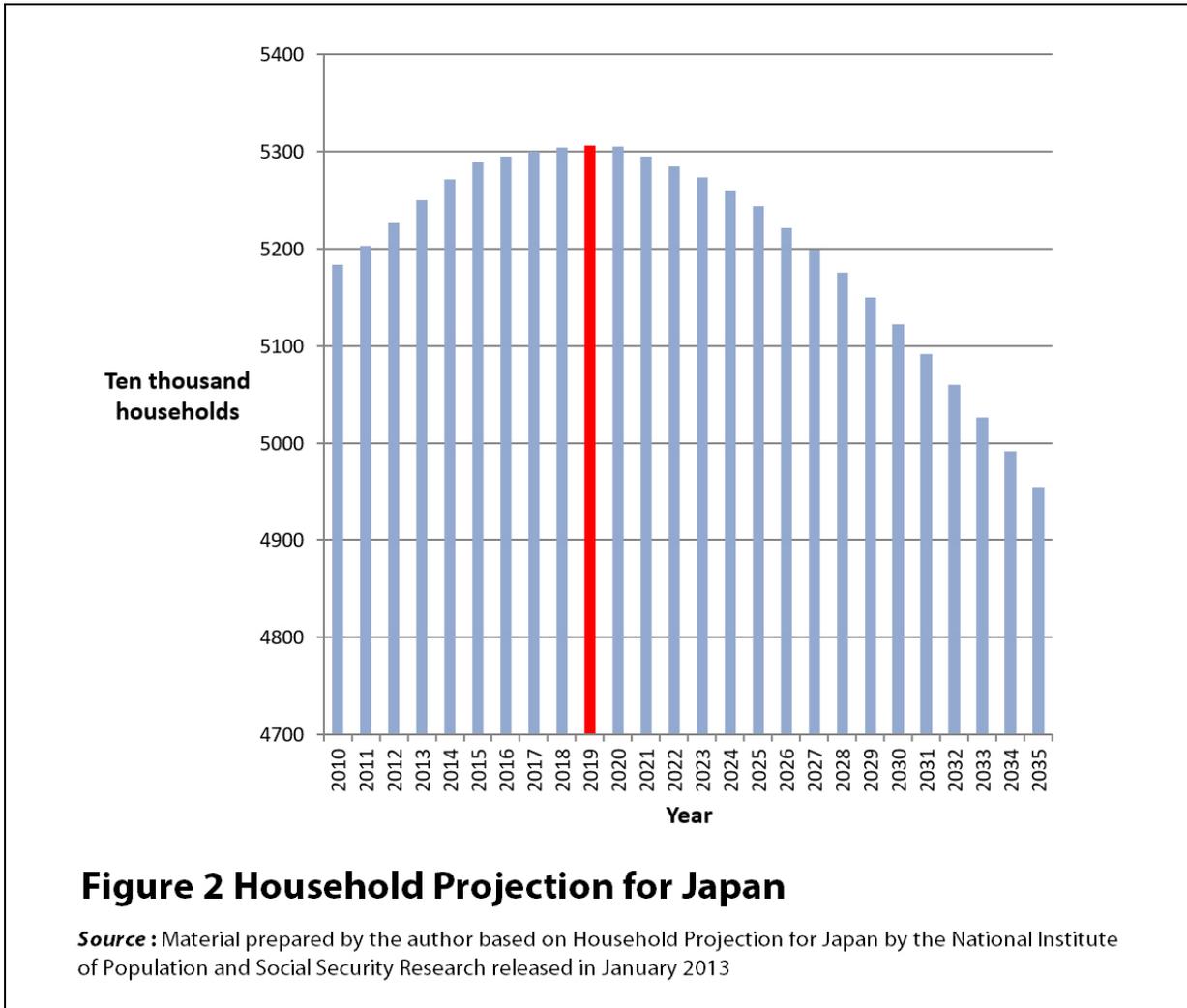
However, the thoughtless increase in the volume of housing may create a fall in the asset value of currently existing houses and their market rents, as well as a decline in their market liquidity as secondhand homes. In particular, the trend of the rapid increase in new loans extended as funds for residential purchases worries the author about the possibility that a situation similar to the Lehman collapse could arise in Japan in cases where an oversupply of housing not in agreement with actual demand increases.

Peaking of the Number of Households and the Arrival of the Era of Massive Inheritance

Meanwhile, the total number of houses was 60,630,000, 16% larger than the total number of

households in fiscal 2013, at 52,450,000. In terms of number, the volume of housing is already sufficient. Furthermore, the number of vacant houses is continuing to grow. According to the Housing and Land Survey, about 8,200,000 vacant houses existed nationwide in 2013 (with the vacancy rate at 13.5%).

In addition to the population, the number of households is forecasted to start falling in Japan in the near future (Figure 2). The decline is estimated to begin nationwide in 2019 and around 2025 in metropolitan areas like Tokyo and Aichi Prefecture. In an additional blow, the baby-boomer generation occupying 5% of the population will be over 75 years old, and the ratio of late elderly population will expand to nearly 20% with no hesitation around 2025, which means the arrival of the era of massive inheritance, in which the inheritance of the parents' home occurs simultaneously for baby boomers and their children. Many children do not take over their parents' home, even if they inherit it, because they already have a house of their own in this age of advanced family nuclearization. Because of this, there are massive houses ready to lose occupants nationwide.



Housing construction certainly produces short-term economic effects. The problem is that even in areas where the new housing is not fully equipped as a place of residence such as roads, elementary schools, or parks, it still continues to expand the total amount of houses. We cannot take a house to a new location or throw it away as we can with consumer electronics and automobiles when they become unnecessary. A house is something that will remain at a particular site, in a particular community for years to come. In other words, building a house means that investments in public utilities, such as the establishment of residential foundations necessary for living, maintenance and management, garbage collection and disaster prevention measures, will become permanently necessary.

However, the working-age population that supports the tax revenue is predicted to shrink in all cities across Japan from this point on. Under these conditions, little reserve remains for new public investments because all Japanese cities are burdened by the increasing cost of welfare for the elderly, massive vacant houses and the aging public facilities and infrastructure that must be renewed.

In short, we have reached a stage where we should direct our attention to the fact that building or purchasing a new house may affect the future of a particular city in many ways in the long term.

Horror of a Society with Excessive Residential Supply that Cannot Be Ended or Stopped

Naming this situation “a society with excessive residential supply,” the author defines it as a society that continues to build massive houses, overlooking the serious effects on future generations and spreading places of residence in a manner similar to slash-and-burn farming (a farming method that burns forests at harvest-time and repeats cultivation haphazardly), despite the number of houses already in existence and the continuous increase in the number of vacant houses.

However, the author does not want readers to misunderstand the following point. The act of constructing houses or purchasing them is not bad in and of itself, even though we are living in a society with surplus houses. People who want to buy new houses, move or rebuild their old houses will continue to need new houses. Constructing new houses in cities that will remain favorable places to live in the future in accordance with current needs and actual demand is an important pillar not only for people who wish to buy homes, but also for residential policies, city planning and housing and construction industries in the private sector.

The problem lies in the point that members of the housing and construction industry and local governments are in a situation where they cannot end or stop building houses, placing enormous future risks on the shoulders of the owners of individual homes. They present no effective solution to the problems of vacant houses and the terminal stage of aging homes, giving top priority to short-term economic measures and market logistics, even though they must be sufficiently aware of such problems.

Because of this, the author would like to use the following section to describe the reasons why the promotion of such a society with excessive residential supply will not stop. In other words, the author will address the structural problems produced by the industry, the government and the private sector, with a focus on condominiums.

Housing, Construction and Financial Industries Realizing Profits by Continuing to Build Houses

Securing profits is difficult for members of the housing and construction industries unless they continue to build houses because they generally repeat to use the profits gained from building houses to next developments. In other words, they engage in their businesses in a way similar to tuna that dies when it stops swimming. This can be cited as the biggest cause of the endless promotion of a society with excessive residential supply.

Housing and construction companies are continuing to build condominiums, instead of rented apartments, because condominiums enable them to easily secure commercial viability with their initial investments, such as land acquisition and construction expenses, collected over a short period. Business risks involved in condominium construction are low because maintenance and management responsibilities are passed on to the purchasers after the properties are handed over to them. In other words, housing and construction companies have no job to perform after sales are concluded. In most cases, they bear no responsibility or future risk for condominiums following their construction or for the cities where they are located. In addition, banks and other members of the financial industry that are realizing profits by financing housing and real estate acquisitions are stimulating the trend of building houses one after another.

Politics and policies often reflect the opinions of the major housing, construction and financial companies that secure profits by building houses. For that reason, we can say that Japan has not freed itself from the growth model for developing countries in which houses are built to generate economic effects.

Meanwhile, in many cases the people that are buying homes consider houses to be an

asset. They tend to think that buying a house with a housing loan that has a rock-bottom interest rate has many advantages, such as a tax deduction for housing loans and other types of preferential treatment, compared to paying a large amount of rent for a rental home every month. In addition to a new house, a secondhand home is another option when buying a house. In particular, secondhand condominiums have become an attractive option in recent years with the steep rise in the price of their newly built counterparts due to rising construction expenses. However, there is a general sense of anxiety about the quality of secondhand homes. There are also transaction risks, because real estate agencies do not offer sufficient information to ensure their quality. For those reasons, the housing market has been unable to free itself from reliance on newly-built houses. As a result, many people decide to buy newly-built homes, under the additional effects of real estate agencies' strategies for shaping a positive image through advertisements and skillful sales pitches.

Mechanism behind Large Numbers of Closely Built High-Rise Condominiums

The structural problems stated above remain for the companies involved in housing and construction. However, we can also cite (excessive) relaxation policies for matters such as the city planning regulations adopted by central and local governments as a cause for developments, such as the continued emergence of high-rise condominiums. Local governments relaxing city planning regulations too flexibly out of a desire to increase the local population have become apparent to the author throughout the shift toward fewer city planning regulations and decentralization that began around 2000.

Systems based on the City Planning Act support the construction of high-rise condominiums, such as those greater than 100 meters tall. In addition to those systems, others exist based on the Building Standards Act, such as one that permits the relaxation of the floor area ratio. Other regulations exist site by site when certain requirements, including the provision of a publicly accessible open space, are fulfilled and the approval of a local government is present. Systems for relaxing regulations, such as those on the floor area ratio, have come to exist in a large number indeed.

To cite one example, the Tokyo Bay area has transformed itself into a district overflowing with high-rise condominiums. The mechanism behind its transformation was the special and substantial relaxation of city planning regulations in the district by the central and metropolitan governments for promoting urban residences and redeveloping the urban area in exchange for public contributions, including the supply of open spaces, such as plazas and walkways at the expense of developers. The implication behind the mechanism

was to offer public assistance in redevelopment projects in urban areas where the promotion of businesses is difficult and to ensure their smooth advancement by improving profitability with a relaxed floor area ratio and other regulations for expanding sellable and rentable floor areas.

However, there are cases in which created public open spaces have designs that produce an exclusive atmosphere and make passersby other than high-rise condominium residents reluctant to enter due to the masterful arrangement of large plants. There are cases such as these where development is difficult to judge as a useful bargaining tool for a substantial floor area ratio increase. There are other cases in which subsidies totaling billions of yen are disbursed to a single district in an urban redevelopment project whose main purpose seems to be the construction of high-rise condominiums.

There have been cases in recent years where high-rise condominiums are built in various locations in the small bayside districts of Tokyo. Those condominium towers produce an overcrowded residential environment that creates a sense of oppression. The author wonders if we can pass those areas down to the next generation as attractive residential districts without misgivings. Areas that raise such questions have emerged in Tokyo.

Policies of Relax Regulation with No Clear Goal

Existing city planning and housing policies are not controlling the rapid rise in the number of residential units supplied by high-rise condominiums on the whole, which is another example of a society with excessive residential supply being endlessly promoted.

One project for redeveloping an urban area involving the construction of three high-rise condominiums scheduled in a certain bayside area where warehouses and similar facilities stand side by side is a case in point. In this district, the floor area ratio was raised from about 400% to the maximum level of 1,070% through the substantial relaxation of one regulation. About 3,000 new houses are scheduled to be supplied in this district based on the revised ratio. As this case suggests, the lack of systems for carefully examining the appropriateness of a plan to build 3,000 houses in this district and the effects the growing volume of overall housing produces on the area, and for adjusting the plan based on city planning and housing policies, is continuing to engender a society with excessive residential supply.

The introduction of private-sector financial resources and business knowhow, and the supply of houses that allow many people to live near their respective workplaces are certainly important pillars for housing policies and city planning. Such initiatives must have

a reason for existing as economic measures after the burst of the economic bubble and the Lehman collapse. In the real estate market there was also the situation where only high-rise condominiums were being supplied because business risks were high for offices and commercial facilities, which were in low demand in those days.

The biggest problem, however, is the government's continued inability to end or stop their policies of regulation relaxation with no clear goal or opportunity for halting them.

In the meantime, according to market trend data published by the Real Estate Information Network for East Japan, the secondhand condominiums in stock numbered 25,395 in metropolitan Tokyo as of September 2016, increasing for 17 consecutive months. The secondhand market condominium is based on supply and demand. For that reason, we cannot deny the possibility that property prices could move in the downward direction over the long term under the condition of overflowing stock volume, although such a shift will depend on diverse factors, including property locations.

Transformation of Regulation Relaxation into a Black Box

In Tokyo, the Tokyo Metropolitan Government and ward offices approve the relaxation of regulations, such as an increase in the floor area ratio, based on the City Planning Act. Those local governments must have the urban plans discussed by a council on urban planning consisting of metropolitan and ward assembly members, academics and others before reaching a decision. However, draft plans seldom undergo any significant change at the discussion stage, even if council members state their opinions, because they are submitted to the council on urban planning after their practical fixation through advance consultations between the local government officials in charge and developers. For that reason, concrete grounds, such as the method used or calculating a higher floor area ratio for public contribution, and the process for their discussion tends to become a black box, even though certain policies and criteria are expressly stated regarding conditions for relaxing city planning regulations, because the on-site confirmation of conditions in the surrounding areas becomes necessary for the examination of development projects in which those conditions differ.

In that case, it might seem smart to clarify the criteria in advance with steps, such as the numerical expression of those grounds. However, there is a problem with such an idea. The clearer such criteria are expressed in the form of numerical values and others, the more local governments must approve projects that satisfy the criteria, but obviously do not contribute to public interest in the concerned areas. We should improve the present situation where

no formal system exists for information disclosure and advance consultation at key points from the early stage of development projects if the floor area ratio and other regulations are especially relaxed in the concerned areas.

Changing a Society with Excessive Residential Supply

The first thing to do to change Japan from a society with excessive residential supply is to stop thoughtless increases in the total housing volume and residential areas through city planning and housing policies.

Specifically, we must start to control the excessive regulation relaxation practiced up until now, by taking new steps, including total volume control on the number of new houses produced under the relaxed regulations.

We can also consider limiting the easing of the floor area ratio and other requirements in cases where new public investments are obviously unnecessary and researching the effects that the number of houses to be built could have on elementary schools, other public facilities and the already established transportation infrastructure.

The second thing to do is to try to guide new housing construction to preferred sites and mature the market for secondhand homes. The author believes that there is a close relationship between housing site guidance with tax systems and financial institutions that hold the key to efforts to guide new housing locations to existing communities (particularly those that are hollowing out), established with public investments in the past, instead of areas lacking established foundations as residential districts, such as reclamation sites and farmland. Examples of their relationship include the establishment of the different levels of preferential tax treatment, various insurance policies related to housing and housing loans offered by private financial institutions applicable in cases where new houses are built in areas where city planning policies state they should be guided and in cases where they are constructed in other districts.

Moreover, developing new incentives and systems that cause house builders, developers, regional construction companies, real estate agents and other parties in the private sector to take active approaches as powerful players, in addition to organizations such as administrative agencies and NPOs, will be essential to restore and renew the current houses and communities in existence.

The third thing we should do is to remain one step ahead of future risks. That is a matter of course. Things like the latest kitchen models, an affordable price range and moneymaking schemes based on lax business profitability assessments capture our hearts

when we buy a new house. We tend to neglect the long-term perspective of trying to grasp the future risks of the houses being considered for purchase and the areas where they are located when convincing pitches by salespeople are added.

Today, we are living in a society with excessive residential supply. Is the area where our house is located likely to maintain comfort in its own way without sharp deterioration? Is there a chance for a buyer or a tenant to appear in cases where a child inherits our house tries to sell or rent it? I think we should turn our attention to the future risks that lie ahead and asset values by asking ourselves such questions. I think that such individual efforts will trigger the transformation from a society with surplus houses.

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NOZAWA Chie

Born in Hyogo Prefecture. Specializing in city planning and housing policy. Completed doctorate program at the University of Tokyo Graduate School in 2002. Doctor of Engineering. Has served as Professor since 2015, when she was promoted from the rank of associate professor at Toyo University. Her book, *Oiru Ie Kuzureru Machi: Jutaku Kajo Shakai-no Matsuro (Aging Houses and Deteriorating Cities: the fate of a Society with Excessive Residential Supply)*, published by Kodansha Ltd., won 16th place in the 2017 Chuo Koron Grand Prize for New Paperback Editions.
