



## INTERNATIONAL UNION FOR HOUSING FINANCE FACT SHEET

### > JAPAN

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## 1. DEMOGRAPHIC OVERVIEW

In 2009, Japan had the 10<sup>th</sup> largest population in the world with 127.5 million inhabitants<sup>1</sup>. Over the last five years, Japan has had seen an average fall in its population of -0.04%. This shrinking of the population coupled with the fact that Japan's population is also aging constitutes a major concern for the country. According to 2009 data, the largest age group is that aged between 21 and 64 (58.2%), followed by those aged 65 and over (22.7) and, finally, by those below 21 (19.1%).

## 2. MACROECONOMIC BACKGROUND

Japan experienced large real economic growth in the 1960s (10%), 1970s (5%) and 1980s (4%). This growth slowed dramatically in the 1990s with the collapse of Japan's economic bubble in the late 1980s. Following the recessions faced in 1992 and 1997, and the economic, financial and industrial reforms in the 1990s, Japan started to see steady positive growth in the wake of the new century. Between 2005 and 2007, the average real GDP growth rate was approximately 2.1%. However, the global financial crisis in late 2007 negatively affected this growth. Although Japan's financial sector was not deeply exposed to subprime mortgages or other derivative instruments, the reduction in business investments and exports in 2008 as a result of the crisis led the country into recession and a negative growth rate of -5.2% in 2009. Nevertheless, Japan is still the second largest economy in the world after the US when measured on a nominal exchange rate basis, and the third, following the US and China, if measured on a purchasing power parity basis.

The financial crisis also affected the per capita gross national income (GNI), which reached its lowest level in five years in 2009 with 3.8 million JYP (EUR €29,300) and real fixed investment on housing, which went down to -14.2% in 2009 following a declining trend in the previous years. However, over the last five years, the unemployment rate has remained basically unchanged at approximately 4.3%, except for a one percentage point increase from 2008 to 2009. In contrast, the consumer price index has fluctuated over the last five years from positive to negative or zero rates, as in 2009 when it decreased to -1.4%.

The service sector represents both the highest percentage of GDP (76.5%) and the largest proportion of Japan's total working population (68%), with the industrial sector, which relies heavily on fuels and imported raw materials, following in terms of importance, accounting for 21.9% of GDP and 28% of the labour force.

<sup>1</sup> According to the CIA World Factbook.

## 3. HOUSING MARKET

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### 3.1. Housing Supply

In 2008, Japan had approximately 58 million dwellings for 49.9 million households. Therefore, the housing supply is large enough to cover the housing requirements of the population, whose households are generally composed of 2.55 people. However, a high percentage of these dwellings may need to be adapted to the needs of the aging population in the coming years. Over the last five years, there has been an average of 1.1 million new housing starts per year.

### 3.2. Housing Tenure

In 2008, the large majority of dwellings were owner-occupied (61.1%) or rented from private landlords (26.9%) as has been the trend since the 1960s. Hence, the proportion of rental homes provided by the Urban Renaissance Agency and the municipal governments is very small. The share of owner-occupied housing has slightly declined when compared to the peak recorded in the mid-1980s, when 62.4% of dwellings were owner-occupied.

### 3.3. Housing Prices

House prices in Japan saw a continued decline during the 1990s apart from in the years 1996 and 1997. However, from late 1999 to 2008 prices started picking up once again up until the peak of JPY 26 million (EUR €170,740)<sup>2</sup> recorded in 2008. Nevertheless, the impact of the late 2007 financial crisis was felt with some delay in 2009, when residential house prices fell again by 4.3% to JPY 24.9 million (EUR €191,000).<sup>3</sup>

## 4. RESIDENTIAL MORTGAGE MARKET

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### 4.1. Lending

In Japan, the depository institutions are the main lenders, although non-depository institutions such as mortgage banks do exist. Currently there are twenty five<sup>4</sup> mortgage banks in Japan. While the fixed rate mortgages offered were the most popular in the late 20<sup>th</sup> century, initially fixed and variable rate mortgages have become increasingly popular in the new century, following the deregulation of the 1990s and persistent and extraordinarily accommodative monetary policies. Nevertheless, in recent years and in the wake of the financial crisis, the Flat 35 fixed rate mortgage sponsored by the Japan Housing Finance Agency (JHF) has been gaining popularity, partly in view of the fact that the Government of Japan has started subsidising some of the JHF's products.

Residential mortgage debt to GDP ratio is currently 37%, and the average characteristics of the mortgage loans that borrowers are currently taking out are the following: 31.4 years for maturity of the loan, 77.9% loan-to-value ratio, 3.8 loan-to-income multiple and an average loan of JPY 21 million (EUR €138,240), in 2008, at a representative rate of 3.3% in 2009.<sup>5</sup>

In Japan, a six month delinquency from the borrower generally constitutes a default. Once the default has been declared, lenders initiate a foreclosure procedure based on Japan's civil law. However, following

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<sup>2</sup> This figure is for the existing condominium price in the Tokyo Metropolitan Area. In Japan, there is no national statistics on the house prices, and the price of existing homes is far below that of newly constructed homes, which are the dominant sector in terms of market size. Existing home sales represent only a fraction of the market.

<sup>3</sup> Note that given the fluctuations in the exchange rate between the Euro and the Japanese Yen over recent years, when residential house prices are converted into Euros this indicator has, in fact, increased.

<sup>4</sup> As there is no authoritative definition of a mortgage bank in Japan, these 25 mortgage banks are only those institutions that have purchase contracts with the JHF and that are non-depository institutions. These 25 mortgage banks include 3 insurance companies.

<sup>5</sup> This representative rate is for the three-year fixed rate mortgages, but usually lenders offer more attractive terms to borrowers based on their attributes. There is no official statistics on the discounted rate, but it is estimated that the actually applied rate is more than 1% below the announced rate. The rest of the mortgage loan characteristics are for Flat 35.

the crisis, new legislation was introduced in 2009 whereby lenders are suggested to offer a certain degree of voluntary forbearance.

## 4.2. Funding

Depository institutions use their deposits to fund variable and initial fixed rate mortgages. This is why deposits represent the vast majority of mortgage funding in Japan, while mortgage banks depend on secondary market operations carried out by the JHF, i.e. they extend fixed rate mortgages, which are then packaged by the JHF into mortgage backed securities (MBS). Covered bonds have not been issued in Japan for the time being; however, the possibility of introducing them as a funding tool is currently being analysed.

## 5. GOVERNMENT HOUSING POLICIES

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In Japan, a certain percentage of the borrower's outstanding mortgage balance is deducted from income tax directly. This differs slightly from the other countries, where mortgage interest payments are deducted from the taxable income. The Government of Japan also subsidises the JHF when it purchases specific mortgage products, which are collateralised with the specified dwellings, including those that reduce CO<sub>2</sub> emissions.

Since 1998, the Government Housing Loan Corporation (GHLC), which was replaced by the JHF from 2007 onwards, has set up a programme to help those borrowers in need to modify their mortgages in order to make payments more affordable. This system functions in a similar way to the Home Affordable Modification Programme (HAMP) in the US. The cumulative number of borrowers who modified loans between 1998 and 2008 amounted to 174,681. However, the JHF is not the only institution dealing with this issue, as the Financial Service Agency has introduced similar measures in the legislation in 2009.

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