

Quakes may come, but Tokyo will endure

By Christopher Dillon

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It will take years to calculate the full human and economic cost of the Great Eastern Japan Earthquake. But as conditions at the Fukushima Daiichi nuclear plant begin to stabilise, it is possible to draw some preliminary conclusions about how the earthquake, tsunami and radiation leaks will affect Japan's residential property market.

Despite the death and destruction in the Tohoku region, life other parts of the country is returning to normal. To save electricity, some lights and escalators are disabled in Tokyo train stations; metro services run at 4- minute instead of 3-minute intervals; and hotels are changing bed linens every other day.

Otherwise, it's business as usual.

As a result, investors looking for bargains in the Tokyo Metropolitan Area will be disappointed. Prices were already low after two decades of deflation, and there has been little if any panic selling. One possible source of bargains is large, western-style apartments, which are often rented by expatriates but unpopular with local tenants. This segment was hit by the collapse of Lehman Brothers in 2008 and by the departure of nearly a quarter million expatriates in the two weeks after March 11.

The departure of the so-called "flyjin" may make it harder for non-Japanese home buyers to obtain mortgages. In the past, Japanese banks were reluctant to lend to foreigners because of fears they would flee. The situation had been improving before March 11, but that progress could be undone if foreigners are seen to be deserting their jobs, debts and other obligations.

While most of the deaths and damage was in Tohoku, Tokyo was also affected by the March 11 earthquake and hundreds of aftershocks. Fortunately, Japan's rigorous building standards were up to the challenge. In Tokyo, there were just seven deaths and 17 serious injuries. Three buildings collapsed, three were badly damaged and 287 had some damage. For a city of Tokyo's size, that is a remarkable achievement, one that will reinforce buyers' long-standing preference for new homes.

Electricity will be a long-term issue, affecting the overall economy, day-to-day life and the property market. The Tokyo Electric Power Company lost over a quarter of its generating capacity after March 11. And because of different line frequencies between eastern and western Japan, there is a limited ability to transfer power to the capital from other areas. That means Tokyo is almost certain to face power shortages during the summer months, when demand peaks.

Blackouts will become a buying consideration if the power shortages drag on. Inner city homes will benefit, especially if train schedules are restricted to conserve electricity.

Energy efficient homes and those with natural ventilation will be more comfortable than sealed buildings that depend on electricity for cooling. And neighbourhoods with essential services like police stations are less likely to be affected by blackouts than purely residential areas.

As the extent of the radiation leaks from the Fukushima nuclear plant became clear, some businesses relocated staff from Tokyo to Osaka, Kyoto and Kobe, prompting speculation that this could be the start of a trend that would revitalise the Kansai region's commercial and residential property markets. But Tokyo remains the centre of political, corporate and academic life in Japan, and it will be difficult to change that reality.

Furthermore, Kansai has risks of its own. Sixteen years ago, the Great Hanshin Earthquake killed 6,500 people in Kobe and there are six nuclear installations nearby, including the troubled Monju reactor at Tsuruga.

Meanwhile, concerns about radiation are dampening Japan's food exports. More than 25 jurisdictions — including Hong Kong and China — have suspended imports of produce from all or part of Japan. That is hurting Japanese farmers, many of whom are old and depend on government subsidies. As a result, March 11 could hasten the rationalisation of Japan's agricultural sector, making farmland available for other uses.

Residential housing sales throughout Japan could benefit from a proposed increase in the consumption tax, from the current 5 percent to 7 percent. Consumption tax is payable on real estate services, like agents' commissions, as well as building materials, construction services and the value of existing buildings.

While the earthquake, tsunami and radiation leaks will have a long-term impact, they will not change the demographic trends shaping the nation's housing market. Japan's population is shrinking and ageing, and the number of one-person households is growing, creating demand for small apartments. People continue to move to Tokyo and other large cities, a trend that will accelerate if the government decides not to rebuild the areas that were affected by the tsunami.

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