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# **Regional Financial Institutions Being Forced to Change Their Housing Loan Strategies**

## **- Number of Working Households Declines in 33 Prefectures -**

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### **I. Introduction**

The Ministry of Internal Affairs and Communications released its Preliminary Sampling Tabulation of the 2010 Population Census of Japan<sup>1</sup> (as of 1 October 2010; hereinafter "the census") on 29 June 2011. We learned from this census that (1) the number of private households exceeded 50 million for the first time, (2) the share of households comprising one-person households exceeded that share comprising households including a married couple with children and became the most common household type, and (3) the share of the population aged 65 and older rose to its highest since the census began. All three of these developments were expected, but confirmed by actual data for the first time. The increase in the number of households shown in the latest census is a positive for newly constructed housing demand. But can that increase really be evaluated in a vacuum? In this report, we examine the impact these demographic changes are likely to have on newly constructed housing demand and on housing loan strategies.

### **II. Clear regional differences in housing demand**

#### **1. The number of private households increased, but...**

The 2010 census showed a total population for Japan of 128.056 million people, a slight 0.2% increase from the previous census taken in 2005, and total private households of 50.298 million, a 3.8% increase. Projections made by the National Institute of Population and Social Security Research prior to the census<sup>2</sup> were for Japan's population to decline gradually from 2006, but for the number of private households to increase until 2015. Thus the slight increase in population was

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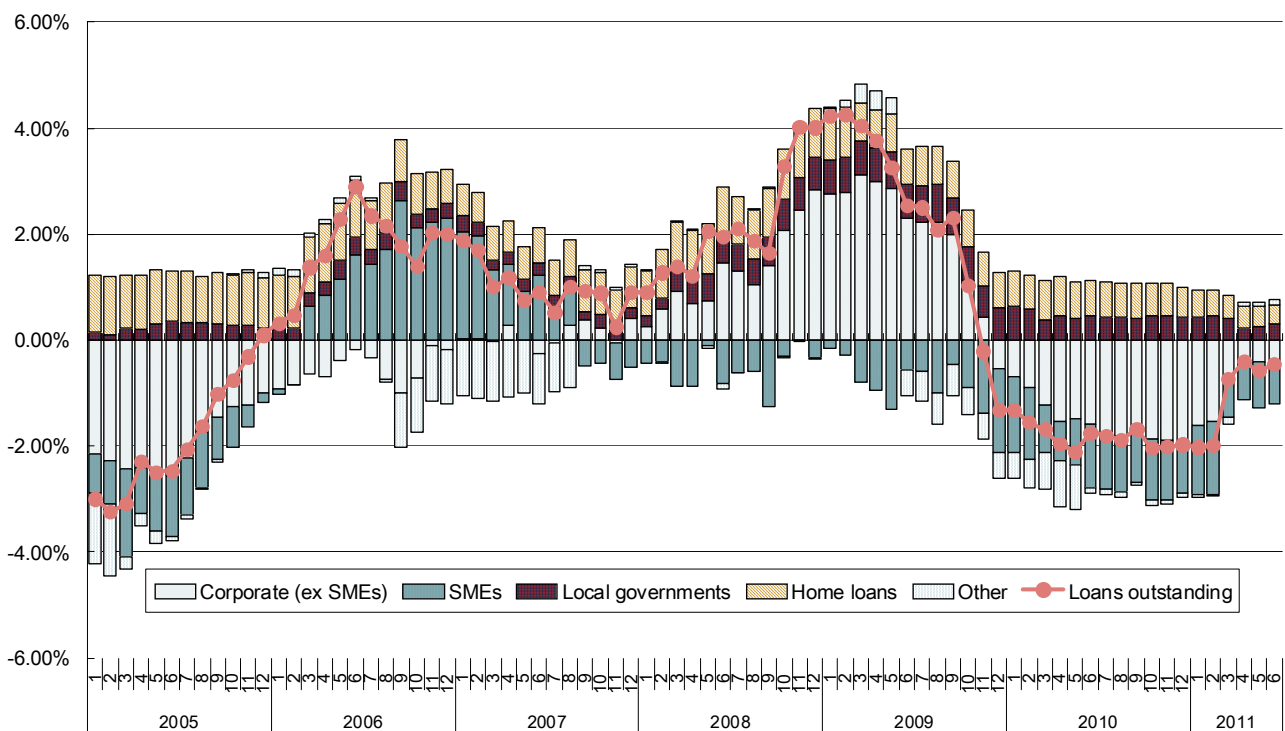
<sup>1</sup> The figures in the preliminary sample tabulation are based on a sampling of roughly one out of every 100 households and meant to allow the publication of general statistical trends ahead of the full data set, which is scheduled to be tabulated by October 2011.

<sup>2</sup> Population Projection for Japan (December 2006) and Nihon no Setaisuu no Shourai Suikei – Zenkoku Suikei (Households projection for Japan – nationwide) (March 2008) (second report only in Japanese)

unexpected, but the increase in private households was largely in line with expectations. Demand for housing is greatly affected by three factors, growth in private households, migration, and demand for upgrading (rebuilding), with growth in these three factors transferring directly to growth in the housing loan market. Based on these projections, which include continued moderate growth in households until 2015, we now see an increased likelihood of growth in the housing loan market<sup>3</sup>. As evident from the data on loans outstanding at financial institutions, which have only shown growth in the categories of loans to local governments and housing loans, while corporate loans have stagnated, lenders are aggressively seeking housing loan opportunities, one of the few lending businesses with prospects for growth. The FY2010 survey on private sector housing lending activity taken by the Japan Housing Finance Agency (JHF) also showed that approximately 90% of financial institutions plan to continue aggressively seeking this business. The growth in private households was probably seen as good news by lenders.

That being said, there are huge differences in this growth among prefectures. Because the previous census showed growth in the number of private households in all prefectures, the expectation was that every prefecture would experience growth in housing demand and in the housing loan market. This latest survey, however, showed a decline in the number of households in 15 prefectures. Hence there is a possibility

**Figure 1: Growth in loans outstanding at domestic banks**



Note: Housing loans do not include "other domestic banks."

Source: Nomura Institute of Capital Markets Research, based on the Bank of Japan's Bank of Japan Statistics.

<sup>3</sup> When looking at overall housing demand, both migration and demand for a better house must also be taken into account.

that growth in housing demand in these prefectures is already either slowing or turning negative<sup>4</sup>. Housing demand from growth in the number of households brings with it growth in the absolute number of homes, and thus leads to increased demand for newly constructed homes. This suggests that lenders' housing loan strategies are focused on people in their 30s and 40s, the demographic where demand for newly constructed housing is greatest, although in those prefectures where the number of private households has begun to decline, and thus demand for newly constructed homes is shrinking, we expect housing loan strategies to start placing greater importance on demand for replacing (rebuilding) existing homes.

## **2. Half of the growth in one-person households does not generate housing demand**

The number of private households is growing despite flat population growth because the number of persons per household is declining, with the biggest reason for this being the growth in one-person households. The number of private households increased 1.866 million from the previous survey, of which 1.428 million were one-person households, hence three-quarters of the growth in households was attributable to growth in households with a single occupant. Consequently, one-person households now account for the largest share of private households at 31.2%. Households comprising a married couple with child (children), which accounted for the largest share by far at 42.5% in 1975, dropped to only a 28.7% share in the latest census, less than that for one-person households.

Sub categorizing one-person households into "elderly one-person households" (65 and over) and "nonelderly one-person households" (below 65), the number of elderly one-person households grew by 712,000 (18.4%) relative to the previous survey to 457,700, while the number of nonelderly one-person households grew by 715,000 (6.8%) to 1.1308 million. Absolute growth was roughly the same, but percentage growth was nearly triple for the elderly relative to the nonelderly, evidence of the speed at which Japan's population is aging. A large proportion of households that become one-person households do so because of death or separation/divorce, without any growth in the actual number of households, and thus growth in elderly single-first households is unlikely to lead to growth in demand for housing. It is growth in nonelderly one-person households, resulting from the splitting up of households due to children going off to college or getting a new job, that is more likely to lead to growth in housing demand.

Growth in nonelderly one-person households has mostly resulted in demand for rental housing in the past. Because interest rates are lower and housing prices have declined recently relative to the bubble years, mortgage payments or not any higher

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<sup>4</sup> The nationwide growth in households is a net figure whereby areas of growth are offset by areas of decline, but when measuring housing demand, areas with a decline in households merely see an increase in the number of vacant houses rather than negative demand, while areas with an increase see a corresponding increase in demand. Consequently, looked at nationally the increase in housing demand is greater than the increase in households, an important fact to keep in mind.

**Figure 2: Number of private households**

(Unit: Households)

	Total private households 2005		Total private households 2010	
		Change from previous census		Change from previous census
Nationwide	49,062,530	2,280,147	50,928,300	1,865,770
Hokkaido	2,368,892	90,924	2,389,200	20,308
Aomori	509,107	4,734	501,200	-7,907
Iwate	479,302	4,642	479,500	198
Miyagi	858,628	26,959	883,800	25,172
Akita	391,276	2,852	383,100	-8,176
Yamagata	385,416	9,197	385,200	-216
Fukushima	707,223	20,998	703,100	-4,123
Ibaraki	1,029,481	45,664	1,056,300	26,819
Tochigi	705,206	39,272	723,300	18,094
Gunma	724,121	33,149	733,300	9,179
Saitama	2,630,623	160,136	2,764,500	133,877
Chiba	2,304,321	140,204	2,450,400	146,079
Tokyo	5,747,460	376,403	6,327,000	579,540
Kanagawa	3,549,710	231,378	3,795,100	245,390
Niigata	812,726	20,846	836,000	23,274
Toyama	370,230	13,869	365,200	-5,030
Ishikawa	423,157	16,539	427,100	3,943
Fukui	267,385	9,057	268,800	1,415
Yamanashi	320,170	12,254	314,000	-6,170
Nagano	777,931	22,091	777,800	-131
Gifu	710,166	32,130	714,300	4,134
Shizuoka	1,346,952	68,284	1,363,000	16,048
Aichi	2,724,476	201,652	2,894,000	169,524
Mie	672,552	37,170	694,000	21,448
Shiga	477,645	38,275	503,100	25,455
Kyoto	1,063,907	48,439	1,085,300	21,393
Osaka	3,590,593	135,753	3,752,100	161,507
Hyogo	2,128,963	93,866	2,209,100	80,137
Nara	500,994	16,040	516,600	15,606
Wakayama	383,214	3,461	391,900	8,686
Tottori	208,526	8,538	202,600	-5,926
Shimane	259,289	2,781	250,500	-8,789
Okayama	724,474	34,741	729,900	5,426
Hiroshima	1,131,024	35,119	1,165,800	34,776
Yamaguchi	588,736	6,299	582,300	-6,436
Tokushima	297,539	9,642	296,300	-1,239
Kagawa	375,634	11,679	378,600	2,966
Ehime	581,003	16,044	576,600	-4,403
Kochi	323,327	4,029	318,300	-5,027
Fukuoka	1,984,662	77,800	2,081,400	96,738
Saga	286,239	8,633	286,700	461
Nagasaki	551,530	8,545	538,900	-12,630
Kumamoto	664,338	19,375	675,700	11,362
Oita	465,195	13,498	478,400	13,205
Miyazaki	449,269	11,776	456,200	6,931
Kagoshima	722,937	8,524	718,600	-4,337
Okinawa	486,981	46,886	504,200	17,219

Source: Nomura Institute of Capital Markets Research, based on the Preliminary Sampling Tabulation of the 2010 Population Census of Japan, from the Ministry of Internal Affairs and Communications.

than rents, resulting in an increase in the number of homes for sale that are affordable and a rising trend in the portion of nonelderly one-person households that are owner-occupied homes. Because home purchases lead to an increase in the number of housing loans written, growth in nonelderly one-person households is a positive for

**Figure 3: One-person households**

(Unit: Households)

	Single-person households 2005					Single-person households 2010				
		Elderly (65 and older)	Nonelderly (below 65)	Change from previous census		Elderly (65 and older)	Nonelderly (below 65)	Change from previous census		
				Elderly	Nonelderly			Elderly	Nonelderly	
Nationwide	14,457,083	3,864,778	10,592,305	832,638	713,127	15,884,800	4,577,000	11,307,800	712,222	715,495
Hokkaido	767,626	212,086	555,540	43,748	41,605	830,000	258,000	572,000	45,914	16,460
Aomori	129,313	41,801	87,512	8,464	-624	131,300	50,900	80,400	9,099	-7,112
Iwate	121,718	36,233	85,485	7,537	-1,979	132,600	44,100	88,500	7,867	3,015
Miyagi	248,863	50,323	198,540	12,544	-1,484	272,500	63,600	208,900	13,277	10,360
Akita	89,027	33,280	55,747	7,225	-700	92,600	40,300	52,300	7,020	-3,447
Yamagata	84,043	25,050	58,993	5,217	3,657	93,700	33,200	60,500	8,150	1,507
Fukushima	172,045	49,675	122,370	10,913	6,011	173,000	64,100	108,900	14,425	-13,470
Ibaraki	238,133	56,804	181,329	14,389	13,017	252,100	75,900	176,200	19,096	-5,129
Tochigi	172,082	41,400	130,682	10,194	12,577	183,600	51,200	132,400	9,800	1,718
Gunma	170,829	48,843	121,986	10,928	9,428	172,100	57,400	114,700	8,557	-7,286
Saitama	662,642	143,923	518,719	46,599	44,138	731,500	186,300	545,200	42,377	26,481
Chiba	620,794	136,972	483,822	39,318	30,629	708,800	180,600	528,200	43,628	44,378
Tokyo	2,444,145	498,443	1,945,702	110,047	139,756	2,862,400	566,300	2,296,100	67,857	350,398
Kanagawa	1,098,441	226,119	872,322	59,019	59,117	1,254,200	299,500	954,700	73,381	82,378
Niigata	189,072	53,138	135,934	11,426	5,923	213,800	67,100	146,700	13,962	10,766
Toyama	80,770	25,255	55,515	5,324	4,433	77,400	27,800	49,600	2,545	-9,915
Ishikawa	116,844	29,872	86,972	6,245	4,948	113,900	31,900	82,000	2,028	-4,972
Fukui	59,618	18,020	41,598	3,230	2,284	61,000	19,100	41,900	1,080	302
Yamanashi	82,843	24,122	58,721	5,066	3,364	77,500	28,100	49,400	3,978	-9,321
Nagano	187,983	56,247	131,736	10,698	2,488	187,600	71,400	116,200	15,153	-15,536
Gifu	152,172	44,731	107,441	10,237	8,067	148,500	54,800	93,700	10,069	-13,741
Shizuoka	332,018	82,716	249,302	21,014	18,081	338,600	104,000	234,600	21,284	-14,702
Aichi	783,157	167,609	615,548	44,228	77,124	887,500	203,500	684,000	35,891	68,452
Mie	161,580	52,833	108,747	10,607	12,924	177,700	66,600	111,100	13,767	2,353
Shiga	116,197	25,757	90,440	6,080	12,473	128,000	29,900	98,100	4,143	7,660
Kyoto	350,468	92,218	258,250	16,113	20,950	362,200	105,700	256,500	13,482	-1,750
Osaka	1,151,774	340,910	810,864	85,803	37,179	1,284,900	409,600	875,300	68,690	64,436
Hyogo	569,481	194,292	375,189	43,016	18,712	632,800	221,200	411,600	26,908	36,411
Nara	104,495	36,985	67,510	8,341	3,374	119,500	44,900	74,600	7,915	7,090
Wakayama	90,736	43,006	47,730	6,783	505	107,100	50,600	56,500	7,594	8,770
Tottori	52,804	17,241	35,563	2,586	4,838	52,900	18,200	34,700	959	-863
Shimane	66,353	24,452	41,901	3,328	1,404	60,200	26,800	33,400	2,348	-8,501
Okayama	200,960	62,674	138,286	12,530	16,109	203,600	66,900	136,700	4,226	-1,586
Hiroshima	335,788	102,571	233,217	17,885	10,781	371,100	116,400	254,700	13,829	21,483
Yamaguchi	166,468	65,945	100,523	9,729	930	167,400	70,400	97,000	4,455	-3,523
Tokushima	80,078	28,080	51,998	4,824	4,998	80,400	30,600	49,800	2,520	-2,198
Kagawa	96,201	33,087	63,114	5,456	4,070	104,100	40,300	63,800	7,213	686
Ehime	166,730	61,097	105,633	9,906	8,261	170,800	69,300	101,500	8,203	-4,133
Kochi	102,702	40,918	61,784	5,298	2,097	105,600	45,400	60,200	4,482	-1,584
Fukuoka	630,031	173,309	456,722	30,616	22,698	711,200	188,400	522,800	15,091	66,078
Saga	65,151	22,705	42,446	3,314	3,645	64,000	23,400	40,600	695	-1,846
Nagasaki	149,545	56,867	92,678	7,048	5,128	144,300	55,700	88,600	-1,167	-4,078
Kumamoto	176,246	61,234	115,012	9,923	4,840	186,800	69,000	117,800	7,766	2,788
Oita	132,586	47,379	85,207	7,055	6,172	142,100	52,300	89,800	4,921	4,593
Miyazaki	124,469	47,402	77,067	7,567	4,279	137,200	57,100	80,100	9,698	3,033
Kagoshima	228,495	96,567	131,928	8,025	5,287	235,800	101,700	134,100	5,133	2,172
Okinawa	133,567	34,587	98,980	7,195	19,613	138,900	37,700	101,200	3,113	2,220

Source: Nomura Institute of Capital Markets Research, based on the Preliminary Sampling Tabulation of the 2010 Population Census of Japan, from the Ministry of Internal Affairs and Communications.

the housing loan market. At the prefectural level, however, as was the case with the number of private households, that number declined in 21 prefectures. Those prefectures with a decline in nonelderly one-person households may see a reduced expectation of growth in housing demand, and this would require a change in housing loan strategy.

### 3. Number of working households declines in 33 prefectures

Another notable statistic from the latest census is the record-high population share of those aged 65 and up. There are now 19.257 million private households, roughly 40% of the total, with an occupant aged 65 or older. Because this increase in households that include elderly persons should increase demand for handicap-accessible (barrier-free) homes, we do not think it will have an immediate negative impact on housing demand. The problem lies in the growth of households that have only elderly occupants. This is because when a single household has children and/or two generations living under the same roof, there is likely to be increased demand for rebuilding because of the children, but households that only have elderly occupants, are less likely to generate housing demand for economic reasons. Because those private households that have a person aged 65 or over and are either one-person or couple-only households are also likely to be elderly-only households, we assume here that by subtracting these two types of household units from the total number of private households we can get the number of households with a nonelderly occupant, which we call "working households." It is likely that an increase in the number of working households has a tangible impact on demand for newly constructed homes. The latest census showed a total of 40.888 million working households, an increase of 469,000 since the previous census. At the prefectural level, however, only 14 prefectures showed an increase in working households, and a surprising 33 prefectures showed a decline. It is therefore possible that demand for newly built housing resulting from growth in the number of households has already started declining in more than two-thirds of Japan's prefectures. Even among the prefectures with growth, only Tokyo and Kanagawa had growth of at least 100,000 households. If this trend continues, the only increase in housing demand will occur in Greater Tokyo (Kanagawa is adjacent to Tokyo) while the housing market stagnates elsewhere. This would cause a serious polarization of the housing market between Greater Tokyo and the rest of Japan.

Migration is another structural factor affecting housing demand, and according to the Report on Internal Migration in Japan (2010) from the Ministry of Internal Affairs and Communications, migration between prefectures has declined for 15 straight years. The numbers on inbound and outbound migration show that the only prefectures that had net inbound migration were Tokyo, Kanagawa, Chiba, Fukuoka, Shiga, Ibaraki, and Okinawa, two fewer than in 2009. Migration is therefore another factor that suggests there are many prefectures without much hope for growth in housing demand<sup>5</sup>.

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<sup>5</sup> As in the case of areas with a decline in households, areas with a net migration outflow just see an increase in vacant homes, but do not generate "negative demand." It is just the areas with net inflow that generate growth in demand at a national level.

**Figure 4: Working households**

(Unit: Households)

	Working households 2005		Working households 2010	
		Change from previous census		Change from previous census
Nationwide	40,418,744	645,253	40,888,300	469,556
Hokkaido	1,875,455	10,036	1,829,800	-45,655
Aomori	419,581	-10,442	401,900	-17,681
Iwate	396,544	-9,312	382,600	-13,944
Miyagi	738,716	2,332	744,200	5,484
Akita	314,355	-10,073	296,800	-17,555
Yamagata	325,642	-726	313,400	-12,242
Fukushima	593,413	1,804	566,900	-26,513
Ibaraki	883,584	10,368	873,000	-10,584
Tochigi	607,012	17,654	607,300	288
Gunma	604,077	10,182	587,000	-17,077
Saitama	2,260,318	48,739	2,284,700	24,382
Chiba	1,958,519	44,297	2,016,200	57,681
Tokyo	4,785,000	196,131	5,241,300	456,300
Kanagawa	3,006,847	103,805	3,111,100	104,253
Niigata	682,998	-1,405	680,600	-2,398
Toyama	309,157	2,651	296,800	-12,357
Ishikawa	353,689	4,118	350,200	-3,489
Fukui	224,334	2,075	223,200	-1,134
Yamanashi	263,132	2,718	251,200	-11,932
Nagano	635,111	434	608,700	-26,411
Gifu	593,498	6,998	575,400	-18,098
Shizuoka	1,142,803	21,950	1,116,600	-26,203
Aichi	2,318,699	102,772	2,402,300	83,601
Mie	544,099	13,572	534,600	-9,499
Shiga	410,926	22,826	422,600	11,674
Kyoto	865,848	15,509	853,600	-12,248
Osaka	2,900,028	-20,666	2,938,400	38,372
Hyogo	1,708,170	13,005	1,730,600	22,430
Nara	407,534	-4,994	406,800	-734
Wakayama	290,765	-8,941	288,600	-2,165
Tottori	171,338	4,084	163,500	-7,838
Shimane	204,309	-2,579	189,900	-14,409
Okayama	580,566	12,274	572,500	-8,066
Hiroshima	903,232	2,437	904,600	1,368
Yamaguchi	443,818	-10,833	427,500	-16,318
Tokushima	236,093	935	231,600	-4,493
Kagawa	298,541	731	292,400	-6,141
Ehime	447,586	169	428,700	-18,886
Kochi	242,977	-2,835	234,200	-8,777
Fukuoka	1,623,610	23,328	1,684,600	60,990
Saga	236,019	2,512	232,100	-3,919
Nagasaki	430,624	-4,639	415,500	-15,124
Kumamoto	529,608	2,305	526,800	-2,808
Oita	359,703	890	361,500	1,797
Miyazaki	343,760	-1,491	340,300	-3,460
Kagoshima	526,535	-3,110	512,900	-13,635
Okinawa	420,571	33,658	433,100	12,529

Note: Working households is the total number of private households less the number of households with an occupant 65 years or older that are either one-person or couple-only households

Source: Nomura Institute of Capital Markets Research, based on the Preliminary Sampling Tabulation of the 2010 Population Census of Japan, from the Ministry of Internal Affairs and Communications.

### **III. Strategy for the elderly is key**

The expectation has been that housing demand will grow at a moderate pace until 2015 as a result of migration and growth in the number of private households. Although this applies to Japan as a whole, we have already seen that at the prefectural level, only prefectures in Greater Tokyo and a few other areas are seeing growth in housing demand from migration and from growth in the number of working households that actually leads to housing demand, whereas most of Japan's prefectures are already starting to see growth stagnate. Accordingly, many regional lenders have a fairly strong need to revise their housing loan strategies. For example, where the prospects for new demand are poor, the focus must be on demand for a better home (by rebuilding). Renovation geared toward an aging society is one area with good prospects for future growth. Demand for reconstruction and renovation is likely to be higher for older homes, and the owners of such homes are likely to be elderly. Housing loan strategies should therefore be changed to put a greater emphasis on developing and offering mortgage products that are easy for the elderly to qualify for. A good example of this is the loan program with special repayment terms that JHF offers to the elderly. Under that program, people aged 60 and older who renovate their homes are able to take out interest-only loans for a whole-life term, with the principal being repaid in a lump sum upon their death. The repayment of principal can be made by the deceased's heirs, or, like a reverse mortgage, can be repaid with the proceeds from selling the home and land. It is also probably worth considering a variety of repayment methods to make it more suitable for pensioners, such as repayments only in months that pension benefits are paid, rather than monthly.