Analysis of Japan's Real Estate Regulatory Policies and Their Effects

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Abstract. The development of real estate is closely related to China's national economy, and in recent years, China's real estate industry has experienced rapid development and change. With the continuous expansion of the industry's development scale and the increasingly complex market environment, the real estate industry is also facing a series of challenges and problems. Japan also faced the bursting of its real estate bubble in the 1990s. Reviewing the history of the bursting of the real estate bubble in Japan in the 1990s has important research and mirror value for us to clarify the formation and bursting of real estate risks and how to implement appropriate policies. This study analyzes the negative and positive impacts of policies implemented before the bursting of the real estate bubble, and the policies introduced by the Japanese government to address the bursting of the real estate bubble. Based on the results of the analysis of Japan real estate, suggestions are made on the idea of regulating China's real estate industry, the means of regulation and the rhythm of regulation.

Keywords: China, Japan, Real Estate, Regulation policy.

1. Introduction

After more than 20 years of rapid housing price growth, China's housing prices have appeared in a clear bubble. The relationship between supply and demand in the real estate market tends to be balanced. With the acceleration of urbanization, people's demand for housing is increasing. In order to control the rapid rise of housing prices and ensure the basic housing needs of residents, the Chinese government has stepped up its regulation and control of the real estate market in recent years. These policies mainly include measures such as purchase restrictions, loan restrictions, and sales restrictions to curb investment speculation and stabilize market expectations. In addition, the government has introduced a series of land supply and development policies to control the overheated development of the real estate market. Not only China, but many countries around the world are facing the crisis of a real estate bubble. This article will take Japan as an example to analyze Japan's real estate control policies and their impact during the real estate bubble and discuss the lessons and inspiration for China [1].

2. Japan's Real Estate Regulation Policy

The bursting of Japan's real estate bubble was triggered by a combination of factors, including short-term control measures implemented before the burst of the bubble. These measures included increased property taxes, land transaction regulations, and real estate credit controls. The tightening of macroeconomic policies, along with these control measures, contributed to the collapse of the real estate bubble.

2.1. Policy that Triggered the Bursting of Japan's Real Estate Bubble

During the bubble economy period in Japan, the coordination between fiscal and monetary policies was lacking. The Japanese government faced a dilemma of declining tax revenues and the need for fiscal stimulus to promote economic recovery. As a result, the government resorted to issuing large amounts of government bonds, leading to a high dependence on debt. The imbalance between fiscal and monetary policies contributed to the formation of the real estate bubble. Additionally, the focus on fiscal reconstruction and the lack of public investment in infrastructure and housing supply further exacerbated the situation. The experience of the burst of the real estate bubble in Japan highlighted the imbalance in economic and financial policies as the trigger for the accumulation and collapse of the real estate bubble. The prolonged period of loose monetary policy and low interest rates led to excess liquidity, which fueled excessive capital inflows into stocks and real estate. The subsequent tightening of monetary and credit policies, along with strict control measures, resulted in a rapid decline in real estate demand and the eventual burst of the bubble. The significant decline in land prices during the burst of the real estate bubble led to a devaluation of mortgage assets, causing risks to spread to the macroeconomic domain. The risks gradually spread and amplified, eventually evolving into systemic risks for the entire financial system, leading to a long period of economic stagnation (see Figure 1 and Figure 2) [2].

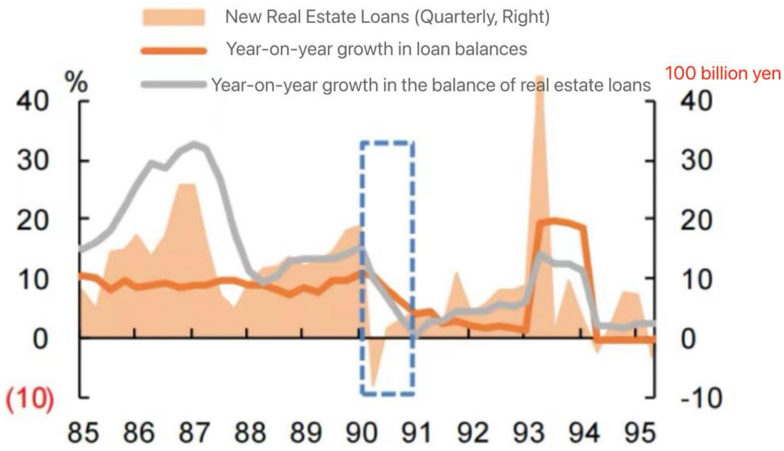

Figure 1. The growth rate of real estate loans in Japan plummeted after the introduction of the general control policy (Source: from Bank of Japan, Ping an Securities Research Institute)

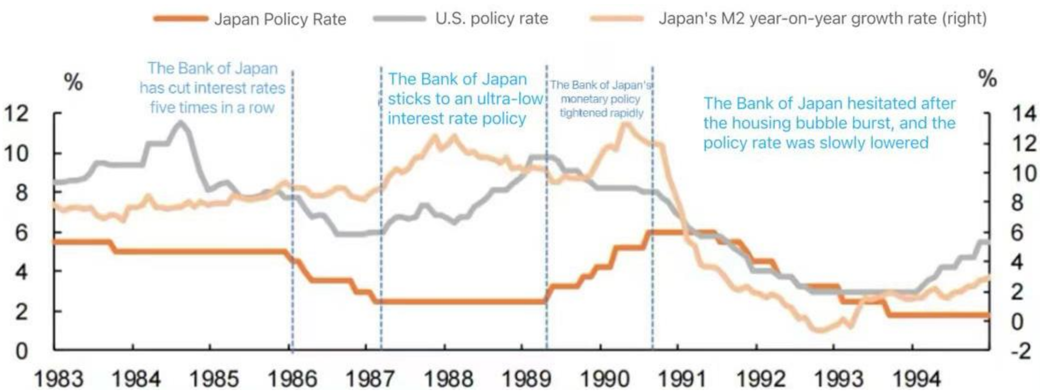

Figure 2. The Bank of Japan's monetary policy operations after the signing of the Plaza Accord (Source: From Wind, Ping an Securities Research Institute)

2.2. Policies to Deal with the Real Estate Bubble

To deal with the real estate bubble, Japan implemented both short-term control measures and long-term institutional reforms. The short-term control measures included increased real estate taxes, Land Transaction Control, and real estate credit controls. Japan's long-term housing system focused on improving the housing supply system and enhancing housing quality.

During the period of housing shortage, Japan established a diverse housing supply system and promoted housing construction. As the housing shortage issue was resolved, the focus shifted to continuously improving housing quality. The first short-term policy is land transaction control, in 1987, measures were introduced to directly restrict land transactions, allowing the local government to designate "control areas" in areas where land transactions were concentrated and land prices had risen sharply, and land transactions within the territory had to be approved by the local chief executive.

The 1987 policy on land transaction control was not suppressed. The rapid rise in land prices has been followed by a rapid increase for more than three years. The second short-term policy is limit on the total amount of real estate financing, for the fourth consecutive quarter in 1987, the Bank of Japan used the "window guidance" to ask financial institutions to reduce the amount of increase in investment in real estate. In April 1990, direct control over real estate financing was implemented, and in September 1990, the Bank of Japan required financial institutions to reduce the amount of new real estate financing by 30% year-on-year in the fourth quarter of that year. 1991 was the peak year of land prices in Japan, and land prices have continued to decline since then, indicating that the continued tightening of real estate financing policies has played an important role in controlling the rise in land prices. The second short-term policy is increase real estate taxes. In 1989, the Japanese government adjusted the real estate tax system in response to a growing real estate bubble. First, the fixed asset tax will be adjusted, the scope of taxation will be expanded, the taxation rate will be raised, and the assessment and characterization will be further refined, so as to make the assessment price of the taxable object more reasonable. Second, in 1991, Japan introduced a land value tax on land holding, aiming to increase the cost of land holding. Reduce land hoarding speculation. In 1989, Japan began to adjust the real estate tax system, and in 1991, Japan's land prices turned from rising to declining, and the adjustment of real estate tax policy played a certain positive role in curbing real estate speculation [3].

3. The Effect of Japan's Real Estate Regulatory Policies

3.1. The Impact of Japan's Real Estate Regulation Policy on the Financial Market

The collapse of real estate prices has led to the bankruptcy of a large number of real estate companies and their affiliates, and financial institutions have also owned huge non-performing loans because they directly or indirectly fund the real estate market. According to the Financial Services Agency of Japan, the cumulative loss of non-performing loans reached 1.6 trillion yen in 1993 and increased to 3.9 trillion yen in 1994, an increase of 136%. The bursting of Japan's real estate bubble led to a severe credit crisis that brought almost all of the banks to the brink of bankruptcy, and the subsequent Asian financial crisis prevented the government from averting bankruptcy and restructuring even if it injected a large amount of capital into the big banks. With the bursting of the capital market bubble, the bankruptcy of small and medium-sized banks, and the exposure of various scandals, Japanese investors lost confidence, and the Japanese real estate market has also fallen into recession (see Figure 3) [4].

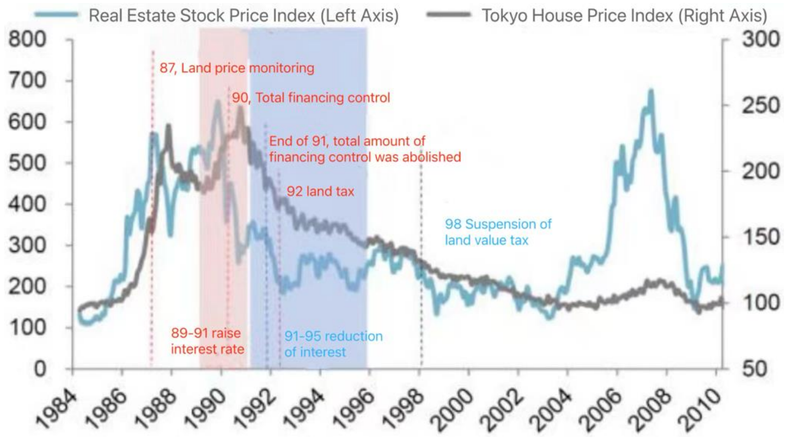

Figure 3. In the late 80s and 90s, the real estate bubble burst before and after the regulation policy (Source: From Wind, Hua Chuang Securities)

3.2. The Impact of Japan's Real Estate Regulation Policy on the Real Estate Market

After the bubble burst in 1991, land liquidity declined, and the transaction volume fell by nearly 20% in 2 years, and the land price index fell all the way. Closely linked to the decline in house prices is the continued downturn in the land market. From 1985 to 1991, the national average land price increased by 62%, and the average land price in the six major cities (Tokyo, Yokohama, Nagoya, Kyoto, Osaka, and Kobe) increased by 2.9 times, of which commercial land increased by 4 times and residential land increased by 2.7 times. However, after the bursting of the bubble, the number of land transactions declined, and in 1993 the number of land transactions nationwide totaled 1.773 million units, a decrease of 19.6% from 1990 (see Figure 4) [5].

Figure 4. The activity of land transactions continued to decline (Red line: Number of Land Transactions (Total))

3.3. The impact of Japan's Real Estate Regulation Policy on the Real Estate Market

The wealth of individuals and businesses has disappeared in large numbers. Many people find that the property they buy has depreciated significantly or even worthless, causing a huge loss of wealth. The decline in wealth has led to a decline in consumer confidence, which has dampened consumer spending and reinforced the economic downturn and deflation. Between 1991 and 2000, Japan's real GDP grew at an average annual rate of only 1.2 percent, well below the 4.5 percent growth rate in the late 1980s, according to data released by the Cabinet Office [6].

4. Enlightenment and reference for China

By systematically combing the relevant conditions of the Japanese financial system during the bubble economy, the study finds that the high risk implied in the Japanese financial system provides a basis for the expansion and bursting of the real estate bubble. Japan's financial system is deeply tied to the real economy, which makes the bursting of the real estate bubble have a broader and far-reaching impact. Through the review of the relationship between the financial market and the real economy in the process of the expansion and bursting of the real estate bubble in Japan, combined with the current relevant situation in China, the following enlightenment can be obtained.

4.1. Regulatory Idea

Based on Japan's housing experience, China can make these changes. First is addressing changing housing demand, China needs to address the changing trends in housing demand, considering factors such as the aging population, slowing economic growth, and the impact of the COVID-19 pandemic on urbanization. By recognizing the shift in demand dynamics, China can better align its housing supply to meet the evolving needs of its population. Second is enhancing affordable housing programs. Implementing initiatives like the "Transfer of Population to Urbanization Affordable Housing Project" can help increase the supply of affordable housing and improve living conditions for urban residents without household registration. This can also alleviate downward pressure on the real estate market. Besides China can developing the rental market. China should focus on developing a robust housing rental market to complement the sales market. By promoting long-term rental options and creating a diversified rental supply system, China can cater to the housing needs of different income groups effectively. Moreover China can improving housing leasing practices. To enhance the housing rental market, China should prioritize increasing the scale of institutional leasing operations, encouraging residents to offer long-term rental properties, and integrating urban renewal with housing leasing initiatives. This approach can help regulate the market and boost effective housing supply. Finally is reforming real estate land use. Establishing a stable real estate land use system is crucial for the smooth operation of the housing market. China can achieve this by implementing policies that link land use to population needs, reforming land transfer mechanisms, and revitalizing existing land resources to support the construction of rental housing [7, 8].

4.2. Pace of regulation

The pace of regulation in China regarding the real estate market is crucial, especially considering the historical experiences of other economies. In China, the long-term urban housing demand is expected to decline due to the resolution of housing shortages and other factors such as aging populations, slowing economic growth, and the impact of the COVID-19 pandemic on urbanization. This has led to a structural oversupply in the real estate market, with declining demand causing downward pressure on housing prices in many cities. Therefore, there is an urgent need to boost housing demand to prevent significant price declines and mitigate risks that could impact the economy and society. To address these challenges and ensure stable real estate market operations, China should focus on improving and stabilizing the real estate financial system and optimizing the real estate tax system. This includes enhancing real estate financial regulations, preventing excessive financialization of real estate, and implementing macro-prudential management systems for real estate financing. Additionally, China should consider adjusting the tax structure, increasing property holding taxes, and introducing taxes to curb housing speculation while supporting housing leasing through tax incentives and other measures. By implementing targeted policies to address the changing dynamics of the real estate market, China can effectively regulate the sector, mitigate risks, and promote sustainable development in the housing industry [9, 10].

5. Conclusion

The study on Japan's real estate bubble in the 1990s provides valuable insights and lessons for China's real estate industry regulation. By examining the triggers and impacts of the bursting of Japan's real estate bubble, the study emphasizes the importance of balancing fiscal and monetary policies, controlling real estate financing, and implementing effective tax policies to prevent speculative bubbles and mitigate risks. The collapse of Japan's real estate bubble resulted in a severe credit crisis, financial market turmoil, and a prolonged period of economic stagnation, highlighting the significant repercussions of real estate market instability. Furthermore, the pace of regulation in China is crucial to prevent structural oversupply, declining demand, and potential economic risks, emphasizing the need for targeted policies to optimize the real estate financial system and tax structure. In conclusion, the study underscores the importance of learning from Japan's experience to guide effective regulation and policy implementation in China's real estate industry, aiming to promote long-term stability, mitigate risks, and support sustainable development.

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