

## **JAPAN ANNOUNCES FURTHER STEPS TO DEREGULATE HOUSING SECTOR**

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On July 22, 2000, the United States and Japan released the Third Joint Status Report (3JSR) detailing progress made this past year under the U.S.-Japan Enhanced Initiative on Deregulation and Competition Policy (Initiative). The Initiative which was launched by President Clinton and Prime Minister Hashimoto in Denver in June 1997, "seeks to eliminate bottlenecks that inhibit Japanese structural changes and economic adjustment" in six priority sectors (telecommunications, energy, housing, medical devices, pharmaceuticals, and financial services). Cross-cutting issues relating to competition policy, transparency, and distribution are also being addressed. The full text of the 3JSR can be found on the Office of the U.S. Trade Representative's web site ([www.ustr.gov](http://www.ustr.gov)).

Included in the measures recently announced were a number of changes in the housing sector. Most notably, Japan will allow the construction of four-story, multi-family and mixed-use wood-frame buildings and revise the Land and House Lease Law to promote the development of a high quality rental housing market. Limitations on the size of wood-frame construction and unnecessary restrictions on the rental market have stymied the market for many U.S. building materials, as well as driven up housing costs for Japanese consumers. The changes announced come on the heels of significant other changes announced last year and the year before, including the adoption for the first time of notice and comment procedures in the development of new regulations, the establishment of a performance-based standard for 2x4 construction; recognition of U.S. grademarked-lumber for use in 2x4 construction in Japan; the lifting of the ban on construction of three-story, multi-family wood-frame buildings in quasi-fire protection districts (urban areas); and the amendment of the Building Standard Law to make it performance-based.

Progress in the housing area (see sections below) should make it easier for U.S. manufacturers/exporters of building materials and systems to compete in the Japanese residential construction market in the years ahead, which is worth an estimated \$42 billion. With just over 1.2 million housing starts in 1999, Japan's housing market was second in size only to that of the United States. In fact, Japanese housing starts over the last ten years have averaged 1.44 million starts per year, compared to just 1.37 million starts in the United States. U.S. manufacturers and exporters supplied an estimated \$1.5 billion worth of building materials

to this market last year, including an estimated \$300 million in lumber, plywood, glue-laminated timbers, and other wooden building materials. U.S. exports of wooden building materials to Japan in 1999 were relatively unchanged from 1998, and are off by more than \$450 million from what they were five years ago. A sluggish economy in Japan has contributed to a decline in housing starts and a weakened yen, both of which have negatively impacted U.S. exports. Furthermore, a strong U.S. dollar vis-a-vis that of our competitors and a strong market for building materials in the U.S. (and consequently high prices) have made many U.S. products less competitive in Japan, as well as some other overseas markets.

Following are the specific measures Japan has undertaken (or will undertake this year) under the U.S.-Japan Enhanced Initiative on Deregulation and Competition Policy. The full text of the Third Joint Status Report can be found on the Office of the U.S. Trade Representative's website ([www.ustr.gov](http://www.ustr.gov)).

### **Building Regulation and Standards**

- The Ministry of Construction (MOC) implemented an interim inspection system for building code enforcement on May 1, 1999. MOC implemented performance-based building standards for the construction of three-story, multi-family wood housing in quasi-fire protection districts on the same date. In June 2000, the revised Building Standard Law (BSL) that introduces performance-based standards became effective. MOC clarified performance-based requirements for fireproof buildings, in accordance with the revised BSL, that allow construction of four-story, multi-family and mixed-use wood-frame buildings that satisfy the requirements. The Governments of Japan and of the United States continue to discuss technically the performance requirements for special use buildings.
- MOC implemented the Public Comment Procedure in developing enforcement orders in February and March 2000 to implement revisions of BSL. It will further implement the Public Comment Procedure in developing future enforcement orders and notifications.
- In December 1999, MOC clarified that sections of a building separated by firewalls meeting the criteria specified in Notification 1059 would be treated as separate buildings for the purpose of calculating permissible floor area.

- MOC implemented in June 2000, a system of recognized/designated evaluation bodies for the nationwide acceptance and evaluation of test data for building methods and materials, and facilitated implementation by providing opportunities for discussions with potential applicants.
- In June 2000, MOC adopted appropriate ISO testing methods to evaluate the performance of structures and interior finish materials such as noncombustible, quasi-noncombustible, and fire-retardant materials.
- During FY 1999, MOC participated in a number of seminars both in the United States and Japan, aimed at acquainting U.S. and Japanese builders and consumers with ongoing reforms and expanded choices of building methods and materials.
- On July 5, 1999, MOC provided to the United States information on the approval process for aluminum fire-resistant windows. Within six months of submission of all necessary test data from the United States, MOC will authorize the use of U.S. power-driven nails and staples in Japan. MOC is still awaiting certain U.S. test data. MOC is also awaiting the final report from the United States needed to re-evaluate the existing correction factors of Oriented Strand Board (OSB) with the view to applying the existing plywood correction factors to OSB, thereby achieving equivalency.
- In July 1999, the Diet passed an amendment to the Japan Agricultural Standard (JAS) Law to allow testing organizations overseas to function as JAS-registered grading organizations (RGO) and/or JAS-registered certification organizations (RCO). In July 1999, the Ministry of Agriculture, Forestry and Fisheries (MAFF) implemented a revised JAS for structural plywood, which places increased emphasis on performance, including board strength.
- leases. The Law exempts contracting parties (i.e., lessor and lessee) signing fixed-term leases from automatic lease renewal and “justifiable cause” requirements and furthermore allows them to waive their right to claim rent changes with a special clause.
- In May 2000, the City Planning and the Building Standard Laws were amended in order to further promote intensive and effective use of land. The amendment established a new framework to allow a construction site, including a residential building, to utilize unused floor area in commercial districts.
- By December 2000, MOC will initiate assistance to the Real Estate Transaction Modernization Center in strengthening the appraisal system for resale housing so that maintenance and renovation quality are reflected in price evaluations.
- In December 1999, MOC informed the United States that it had taken necessary measures to ensure that its housing programs do not discriminate against imported products.
- Following the amendment of the Government Housing Loan Corporation Law, the maximum repayment term for resale condominiums meeting certain quality criteria will be extended, within FY 2000, from 30 to 35 years, which is the same as that for newly built houses. Similarly, the maximum repayment term for resale detached houses meeting certain quality criteria will be extended from 20 to 25 years.

### **Housing Policy**

- On December 9, 1999, the Diet approved the Law Concerning Special Measures for Encouragement of the Supply of Quality Rental Housing and Other Facilities. The Law, whose implementation was completed on March 1, 2000, revised the Land and House Lease Law by introducing fixed-term lease regimes as an alternative for housing