

# Construction Outlook in Japan

Aug 2024

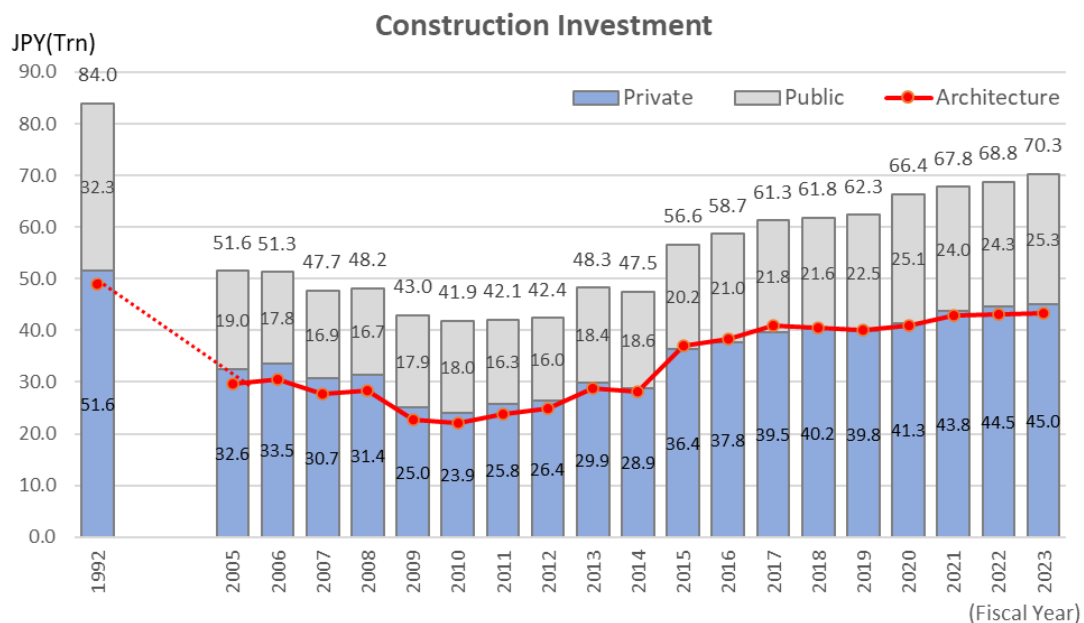
This report is the summary of SFC's research covering the Japanese construction market. It provides the historical and forecasting construction industry value with details of the market condition and the construction categories in Japan.

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## 1. Construction Investment

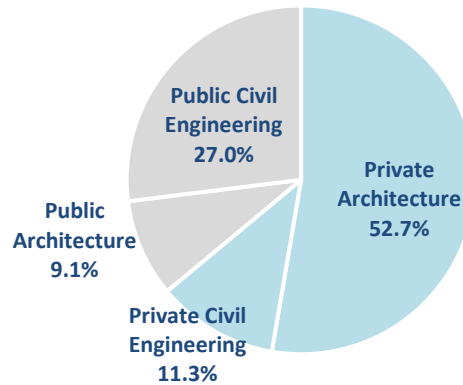
### 1.1 Transition of Construction Investment



Source: MLIT "Construction Investment Outlook"

After peaking at 84 trillion yen in FY1992, construction investment has continued to decline, and in FY2010 it fell to about 50% of its peak. Since then, it has been on an upward trend due to reconstruction demand following the Great East Japan Earthquake and a recovery in private sector investment. Construction investment in FY2023 is expected to increase by about 2.2% from the previous year to 70.3 trillion yen, and the investment in building construction is expected to be 45.0 trillion yen.

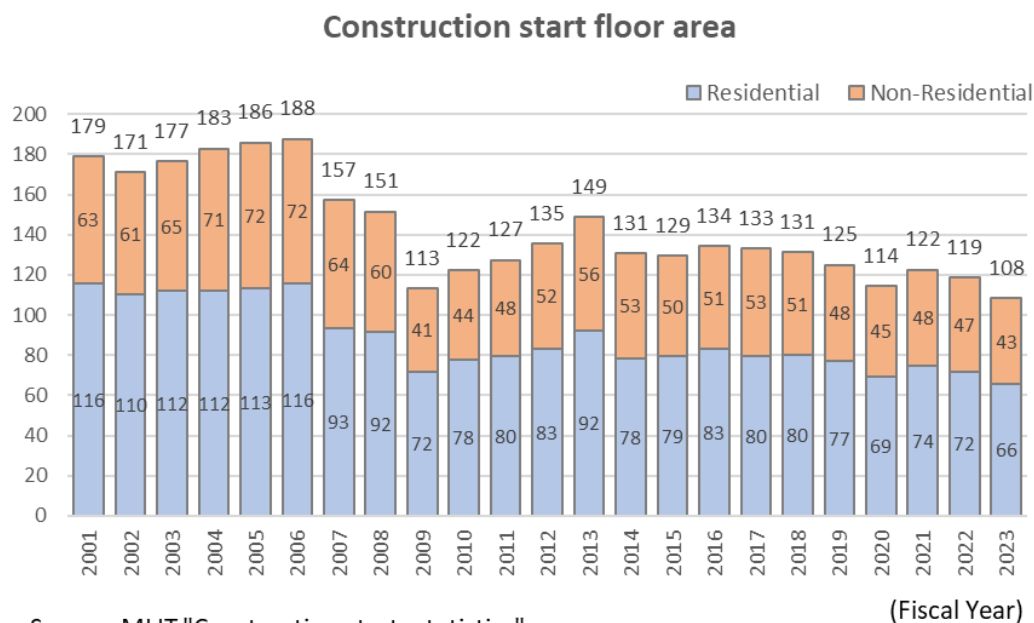
## 1.2 Construction Investment Breakdown

**Construction Investment Breakdown**

Source: MLIT "Construction Investment

Looking at the composition of construction investment, private investment accounts for about 64.0% of the total, and public sector accounts for about 36.0%. By type of construction, architecture accounted for about 61.8% and civil engineering for about 38.2%. As the result shows, most of the private investment is in construction works, and most of the public investment is in civil engineering works in Japan.

## 2. Construction Demand (Construction Start floor area)



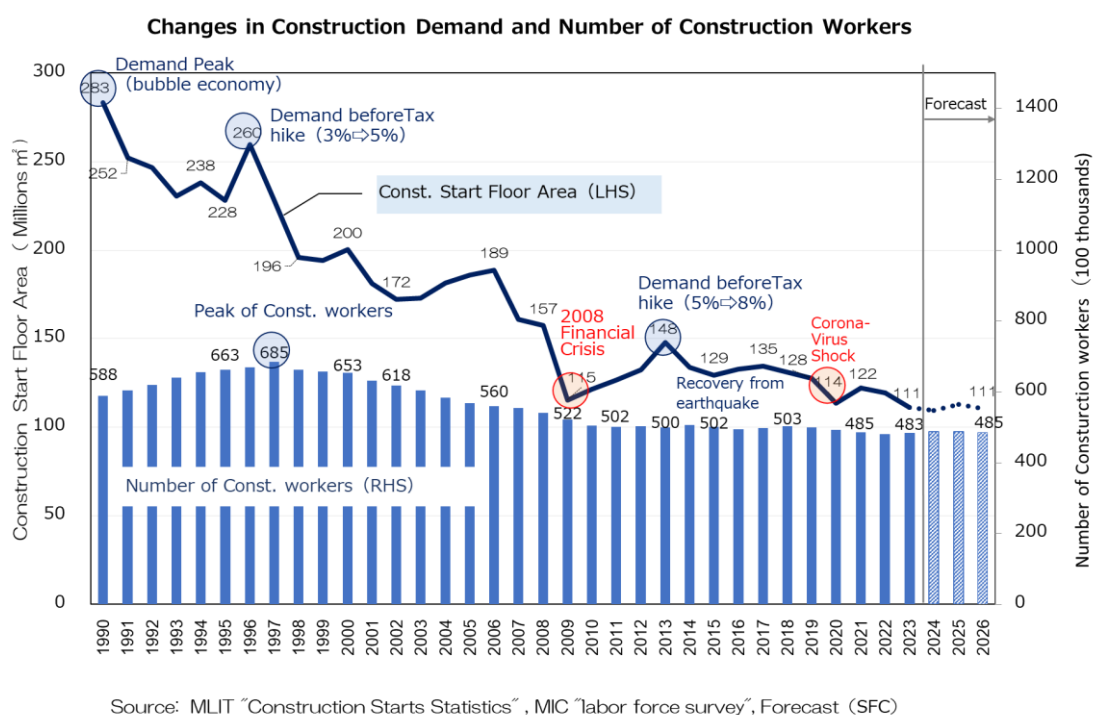
New construction floor area fell sharply in FY2007 due to the impact of the revision of the Building Standards Law. It fell further in FY2009 due to the global recession following the 2008 financial crisis.

From FY2010 onwards, construction investment began to increase. However, in FY2014, demand dropped sharply due to the reactionary decline following a surge in demand before the consumption tax hike in the previous year.

In fiscal 2020, both residential and non-residential buildings saw declines for the second and third consecutive years, respectively. As a result, new construction floor area fell sharply to 114 million square meters, a 10.8% decrease.

In fiscal 2021, it recovered slightly, increasing by 7.5% to 122 million square meters. However, it still fell short of the pre-crisis level of 2019. Since 2021, demand has continued to decline, reaching 119 million square meters in 2022 and plummeting to 108 million square meters in 2023. This 2023 figure is even lower than the drop experienced in 2009.

### 3. Construction Demand and Number of Construction Workers



Over the past decade, construction demand, measured by building floor area started, peaked in 2017 and has been declining since. The impact of the COVID-19 pandemic in 2020 led to a significant 10.8% drop in demand. However, 2021 saw a rebound due to economic recovery, with increases in residential demand and the need for logistics warehouses, offices, and factories, resulting in a 7.5% year-over-year growth in overall construction demand.

From 2022 to 2023, demand for office spaces declined significantly for two consecutive years, and retail space demand also decreased. The demand for logistics warehouses peaked and began to fall in 2023, leading to an overall decline in construction demand during these two years. Moving forward, construction demand, largely driven by residential demand, which constitutes about 60% of the total, is expected to continue its downward trend through 2026. Nevertheless, large-scale projects in urban areas, particularly those awarded to major general contractors, are expected to maintain steady demand.

On the supply side, the number of construction workers has been gradually decreasing, and this trend is likely to persist. The labor shortage is expected to intensify due to the retirement of experienced workers and the implementation of work-hour limits as part of work style reforms in FY2024.

#### 4. Construction Price

Construction cost in Japan keeps on rising continuously after recovery of the global financial crisis occurred in 2008. Fundamentally this has been caused by a shortage of construction workers nationwide, which is a direct result of an existing aging problem and a lack of interest by incoming workers. In recent years, work style reforms initiated by the government is accelerating this condition.

Some people assumed the volume of construction investment would reduce after the completion of the projects related to the Olympic games in 2019. However, the problem of labor shortage has not been resolved and is becoming more serious, and as a result, it seems that construction prices will continue to rise for a while.

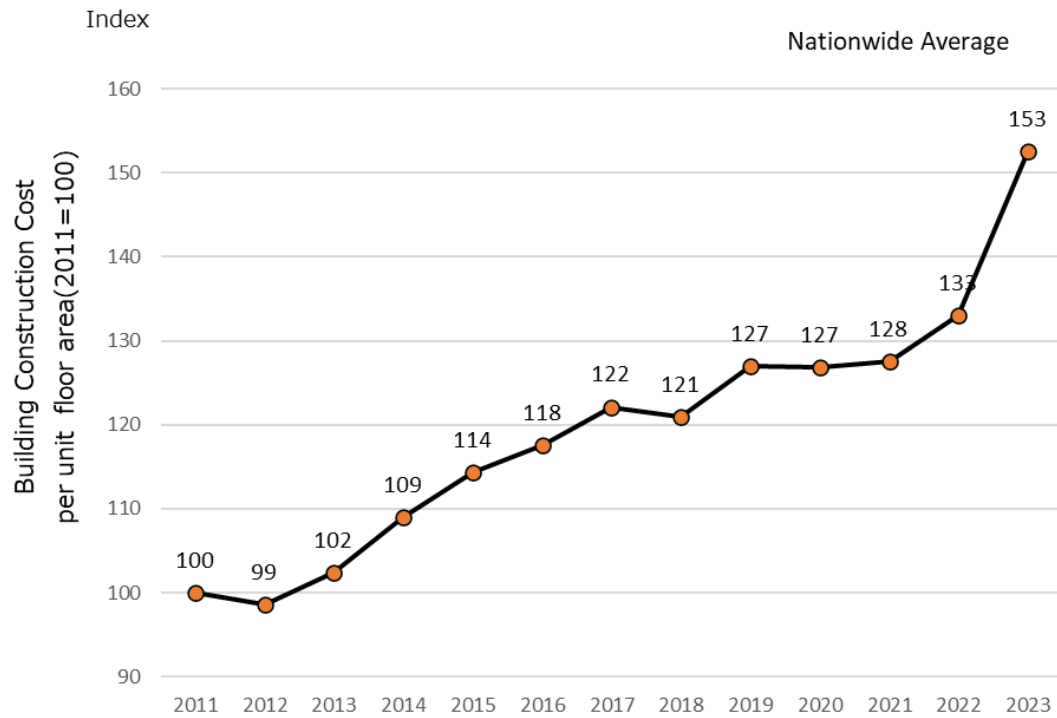
The construction industry had been extremely strong until 2019, however, since Covid-19 occurred February in 2020, the economic situation was suddenly changed remarkably. And as economic activity reduced greatly, capital outlay for investment for Building decreased drastically in 2020.

From 2022, the recovery of demand from the pandemic combined with Russia's invasion of Ukraine has accelerated the rise in energy costs and raw material prices. In addition, the price of materials procured from overseas is soaring due to the impact of the weak yen. Construction prices are expected to continue to rise due to rising material costs.

The graph shows the trend of the average construction cost per unit floor area of all types of buildings across Japan. The price has been increasing annually, particularly from 2014 to 2017, during which a significant increase was observed. Even after that, there was a rise in demand for building construction due to active redevelopment, particularly leading up to the Olympics.

Since 2020, there was a significant drop in demand due to the impact of the COVID-19 pandemic. However, from 2021, there has been a sharp rise in the cost of building materials. In 2023, building demand grew significantly after the pandemic. Due to the high cost of building materials and rising labor costs from labor shortages, prices increased sharply, with a 14.7% rise compared to the previous year.

### Trend of Construction Cost per Floor Area



Source:MLIT "Construction Starts Statistics"