Opinion **Japanese business & finance**

How Japan is helping America's youth leave home

The fragmented US housebuilding industry — and demographic arbitrage — tempts acquisitive Japanese companies

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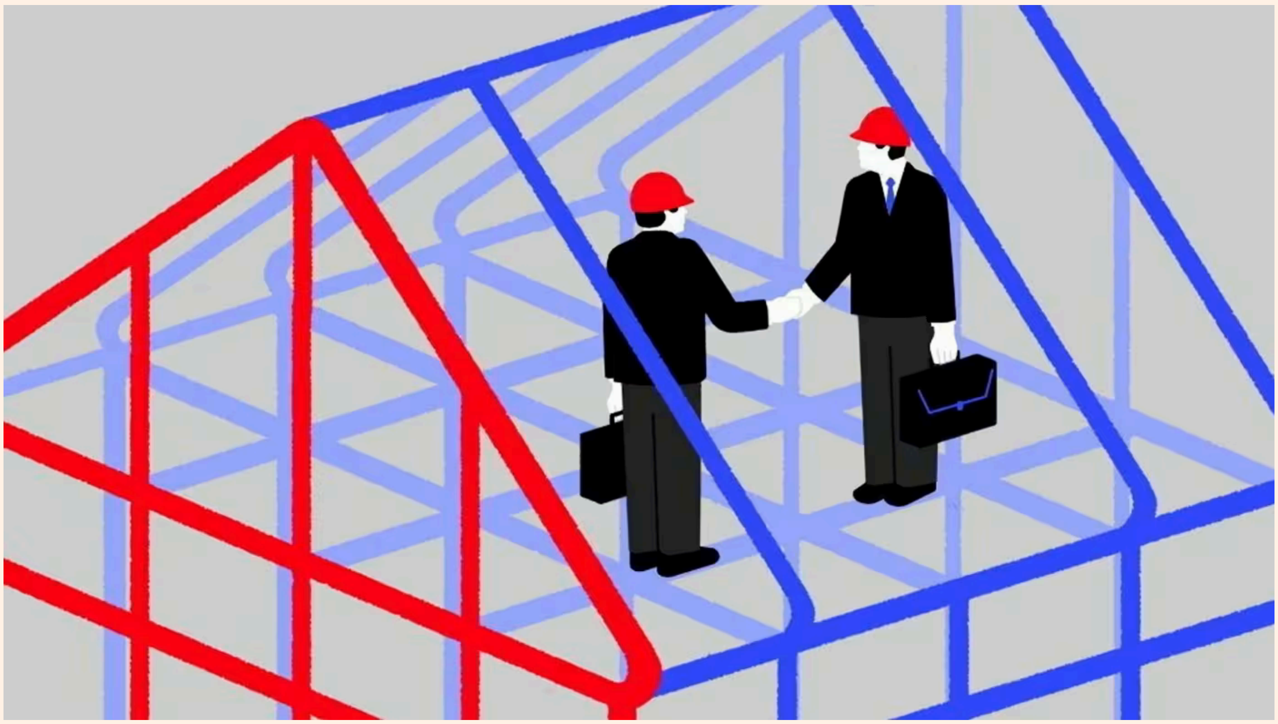

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Leo Lewis 13 HOURS AGO

From the rise of stratospheric balloon funerals and progressively softer biscuit recipes to the use of noodle discounts to bribe the elderly into surrendering their driving licences, Japan's demographics have produced a fine array of unexpected consequences. They could now, conceivably, include persuading a giant cohort of young Americans — the 23mn 18- to 29-year-olds who still live with their parents — to at last fly the family nest.

The clue to how this might happen emerged last week when Sekisui House, the heavyweight Osaka-based homebuilder, said that it was buying Denver-based MDC for $4.95bn. The deal will not only be one of the largest undertaken in the sector by a Japanese buyer, but will catapult Sekisui into the top five US homebuilders as measured by 2022's completed sales.

The deal, say industry experts, is part of an expected wave of consolidation in America's surprisingly fragmented housebuilding sector, where analysts calculate that the 20 largest companies control roughly 40 per cent of the market. Consolidation could mean more supply, cheaper homes and, in theory, more opportunities for young adults to strike out on their own — they currently cite the unaffordable cost as one of the main reasons for living with their parents.

Japan looks more and more critical to driving this. The Sekisui deal, which was followed this week with a smaller US-based acquisition by Daiwa House, confirmed reporting by the FT last year that the ambitions of Japanese housebuilders were burning hot, and that their prowling for targets in the US market had reached a new pitch of aggression. Daiwa, Sekisui and Sumitomo Forestry are all now climbing the US rankings in terms of scale. M&A bankers who work with the trio are clear that they are far from done buying their way to expansion.

Behind Japan's now accelerating foray into US housebuilding (it has been slowly expanding for over a decade) are three forms of arbitrage — differences between the two countries that these deals are expressly designed to exploit.

The first, and most important, is the demographic arbitrage. Japan's indigenous, ageing population is shrinking at a rate of roughly half a million people a year, while its national surplus of dwelling units (houses and apartments) is expected to have surpassed the 10mn mark in 2023. A great many Japanese companies across a wide range of industries have recognised that their only serious prospects of growth are overseas, where populations are still growing. The housebuilders offer perhaps the clearest example of Japan's worldwide corporate chase for more lucrative demographics.

US population growth, though running at a low pace of 0.5 per cent in 2023, is still positive, and the country's housing inventory is low. According to John Burns, a veteran consultant on the American housing market, the US as a whole is approximately 1.7mn housing units short — a margin which exists as a residual symptom of the 2008 financial crisis and represents an entire year's worth of new construction at the current pace.

A second type of arbitrage is financial. Even as expectations build that the Bank of Japan might enter a rate-raising cycle at some point later this year, its ultra-loose monetary policy continues to set the country apart from the rest of the developed world. Japanese companies can still raise financing at low cost, and, according to Margaret Whelan, a specialist housing industry investment banker involved in recent dealmaking, access to cheaper capital puts the Japanese housebuilders at a significant advantage in the US market.

The third arbitrage is practical. Japan’s housebuilders have evolved in a domestic market whose economics have been dominated for more than 30 years by the collapse of the late-1980s property bubble and, latterly, by labour shortage. They are efficient, they are highly waste-averse, and they are leaders in less labour-intensive technologies: these factors, say analysts, could make them formidable competitors in the US, especially as they apply those skills to the companies they have bought.

The emergence of these lean, cheaply-capitalised and customer-hungry Japanese buyers has, says Whelan, created a distinct new “tension” in the US homebuilding sector: consolidation is in the air, with defensive domestic mergers a possibility and other foreign buyers, Canadian and European, likely to be drawn in.

When “sticks and bricks” are half the cost of a dwelling, economies of scale and lower-cost capital are the industry’s best hope. Housebuilders need to build faster and cheaper — for the sake of US parents who would like to get their kids out of the house.

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