Available online at www.sciencedirect.com
ScienceDirect
ELSEVIER
Journal of Housing Economics 16 (2007) 167–188
JOURNAL OF HOUSING ECONOMICS
www.elsevier.com/locate/jhe

Effects of government policies on residential mobility in Japan: Income tax deduction system and the Rental Act

Miki Seko [a,*], Kazuto Sumita [b]

[a] *Faculty of Economics, Keio University, 2-15-45 Mita, Minato-ku, Tokyo 108-8345, Japan*
[b] *Department of Economics, Kanazawa Seiryo University, Ushi 10-1, Gosho-machi, Kanazawa-shi, Ishikawa, 920-8620, Japan*

Received 31 August 2006
Available online 14 June 2007

Abstract

This paper draws on three waves of Japan household longitudinal data (Keio Household Panel Survey, KHPS) and estimates a proportional hazard model to investigate the effects of two distinctive polices in Japan that influence residential moves. One is the implementation of an income tax deduction system in 2004 for the carrying over of capital losses for owner-occupied households and the other is the Japan Rental Act for renter households. The tax policy was devised to cope with the severe equity constraints that followed the bursting of Japan's asset Bubble in the early 1990s. The Rental Act (1921, amended in 1941) provides renters protection from eviction and is the basis for a court arbitrated rent control system. We examine the effect of this rent control system on residential mobility based on an estimate of the implicit subsidy resulting from the Rental Act. We find that both government policies have a strong impact on residential mobility. The implementation of an income tax deduction system linked to capital losses increases owners' mobility, especially for those households with a large *LTV* (Loan to Value Ratio).

JEL classification: R21; C41; G21; K21; H31

Keywords: Residential mobility; Housing equity constraint; Japan Rental Act; Hazard analysis; Income tax deduction; Capital losses; Rent control; *LTV*; Japanese bubble

* Corresponding author. Fax: +81 3 5427 1578.
E-mail address: Seko@econ.keio.ac.jp (M. Seko).

1051-1377/$ - see front matter
doi:10.1016/j.jhe.2007.06.001

1. Introduction

The purpose of this paper is to examine the effects of government policies on residential mobility in Japan focusing both on policies related to homeowners and renters. The 2004 income tax deduction system regarding the carrying over of capital losses is unique to Japan. It was a belated policy response to the implosion of real estate prices following the bursting of Japan's asset Bubble from 1991. From the late 1980s, Japan witnessed a rise and fall in land and housing values that rivals that of any period in modern history anywhere. The sharp downturn left many Japanese homeowners with low or negative housing equity. The other major policy under review here is the Japan Rental Act (1921, amended in 1941) that provides strong legal protections to renters in terms of renewal rights and rent increases. We investigate the effects of those government policies and systems on residential mobility in Japan.

Japan is known as a low residential mobility society. Between 1998 and 2003, the average annual residential mobility rate is 5.1 percent of all Japanese households.[1] The degree of residential mobility varies across countries.[2] Relatively high residential mobility rates are common in the U.S. and Canada; the residential mobility rate between 1995 and 2000 in the U.S. is 50.39 percent[3] while that between 1996 and 2001 in Canada is 41.9 percent.[4] In contrast, the Japanese residential mobility rate between 1998 and 2003 is 24.1 percent, less than half of that in the U.S., and this has been decreasing.

Well functioning housing markets in market economies allocate housing to households when they enter the market and determine housing equity, a very important component of household wealth. Residential mobility is an equilibrating factor in this allocating function of housing markets. When institutional constraints or other barriers impede residential mobility, this allocating role of housing markets is disrupted. Countries with low rates of residential mobility tend to suffer from high price volatility (see Englund and Ioannides, 1993). That is to say, due to high transaction costs most households do not immediately react to price changes by changing their residences, causing market disequilibrium and price volatility because quantity adjustments by relocation do not occur smoothly. In addition, low rates of residential mobility can adversely affect economic growth. In order to address the problems of low residential mobility government policies are devised to promote residential mobility (see Englund and Ioannides, 1993; Hardman and Ioannides, 1999 and Long, 1991).

In the following analysis, we focus on two important government policies related to residential mobility in Japan, i.e. the 2004 income tax deduction system in the owner-occupied housing market and the Japan Rental Act (1921, amended in 1941) that influences

[1] This figure is based on the *2003 Housing and Land Survey of Japan*. The annual residential mobility rate between 1968 and 1973 was 8.1%, that between 1973 and 1978 was 7.5%, that between 1978 and 1982 was 6.8%, that between 1982 and 1988 was 6.2%, that between 1988 and 1993 was 6.1% and that between 1993 and 1998 was 5.8%.

[2] Long (1991) analyzed residential mobility differences among developed countries. Strassmann (1991) made an international comparison of housing market interventions and mobility. Angel (2000), Table A.25 (p. 372) shows annual residential mobility rates as of 1990 among 53 major cities in 53 countries. Harsman and Quigley (1991), Tables 1–5 show annual residential mobility rates among European countries and the U.S.

[3] U.S. census 2000 analyzed by the Social Science Data Analysis Network http://www.censusscope.org/us/s48/chart_migration.html.

[4] Statistics Canada releases 2001 census mobility data.