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Market Update Report: EBPA Japan
Month: May 2006

I. Market Trends

! Building Components Price Hike by Raw Material Cost-up

Due to the rising cost of raw materials caused by the oil price hike, building materials/components manufacturers have tried to lower the manufacturing cost, but now, many of them are forced to start raising their products price. Here are some examples of the Japanese major companies.

TOTO

- Bath room, bath unit: 2.8-4.0% price up since Sep.05
- Sanitary ware, faucet, plastic ware: 3.0-14.0% up from Jul.06

TOSTEM

- Building materials: 14% up since Mar.06
- Housing components: 10% up since Mar.06
- Commercial building components: 14% up from Jul.06

Daiken Kogyo

- Flooring material: 200-400 yen/3.3m² up
- Door, cabinet, etc.: 5% up for higher grade products

INAX

- Price up for tile products only

Eidai Sangyo

- Plywood: requested its sales agents to raise the price

Chugoku Mokuzai

- Lumber for P&B: 3,000yen/m³ up since Apr.06

On the other hand, **National, Asahi Chemical, Wood One** and **Nichiha** said that they did not plan to raise the products price, but to continue efforts for reducing their manufacturing cost.

! **Expanding Rent-apartment Market**

Housing starts in 2005 showed a considerable growth in rental apartment; 504,200 units that marked 8.4% increase over 2004. The share of rental units in total housing starts reached 40.8%, most of which (98.6%) are apartments or town houses. Presuming the increasing need for rental flats in urban areas, rental housing and material suppliers have approached to land owners to propose rental apartments construction for their effective property management, and to owners of old and non-profitable apartment, worked to recommend renovating or rebuilding the existing old apartment. These efforts have resulted in the rapid expansion of the rental apartment market in metropolitan areas since 1998. The industry is taking a positive view about the continuing growth of this market for the several years to come.

These are some examples of successful company strategies in this market.

Daito Kentaku:

The largest wooden apartment supplier in Japan who is specialized in 2x4 structure.

Its total housing supply in FY2006 is expected to reach 53,000 units (48,992 by March '06).

Structural Lumber

- Total consumption in FY2006 : to be 250,000sq.m (230,000 by March '06)
- Almost all are SPF, directly imported from Canada
- Quality should comply with Daito own grading, which is slightly moderate than J-grade.
- For stud, 95% is from Canada and the rest, imported from Europe (White Wood)

OSB

- OSB is mainly used for wall (9mm), floor(15mm) and roofing(11mm) structure.
- Annual demand is about 55,000sq.m which occupies 35% of total OSB import to Japan.

Finishing Wood Materials

Door/frame, molding, etc. are imported from Malaysia and Chinese manufacturers.

Other housing components

Directly procured from the Japanese suppliers

Daito's policy for procurement of the materials is to purchase anything from anywhere if the products meet their requirement for price, quality, and sustainable supply system.

Hias & Company

It is not a large company but unique in concentrating on the single family rental house market which represent 3% of total rental housing market. It developed unique housing package "Uni-cube" for rental housing, which is being sold to local home builders. "Uni-cube" ensures 11% of interest rate to the home owner.

- "Uni-cube" is a package for two houses that has only one plan with one price
- Structure: wooden 2-story
- Floor area: 70m² for one unit
- Design: modern box shaped design using galvanized steel for outside and a wood deck
- Available to build on minimum 181,5m² lot including parking for 2 cars
- Price: 7 mil. yen for one unit (8.2 mil yen including external works)
- Estimated rental fee: 80,000yen/month (including one car parking)

Token Corporation

Middle-size apartment builder who supplies about 10,000 units/year.

It has rapidly expanded its business by consolidating in-house procurement, R&D and manufacturing processes.

Its affiliated company "Token Reeva" is responsible for procurement of all materials and equipment, R&D and manufacturing, which contributes to minimizing costs as well as development of the company's original products. It also emphasizes outside sales of the original products, so that to keep the product price and quality always competitive.

Because of the unstable price of the raw materials, Token Reeva is working on the review of the basic material such as increased use of MDF for wood components core materials, shift from the domestic to overseas supply source.

Sekisui House

The Japan largest housing supplier with an annual supply of 56,000 units.

Mainly using light-gage steel structure system, including low-rise apartment buildings.

Among the total, rental housing occupied more than half, 35,658 units in 2006 (by Jan.)

The company recently put a great emphasis on "CSR" to contribute to development of the sustainable society and has achieved "Zero-emission" in its all factories as well as its new

housing construction work sites. This has eventually resulted in, according to the company, the total cost reduction through the effort for reducing construction site waste, which naturally lead to lowering materials cost, rationalizing the components work process at site and shortening the time for site assembly.

As being a mass producing giant manufacturer, Sekisui's considerably invests for R&D and specifically for rental housing, it has developed a light-gage steel structure system called, "Universal Frame System (B system)" for 2-story building and for 3-story houses, "Beta System" heavy steel portal frame structure using H-shape steel columns.

! **Nice Corp. introduced special extension frame for Marvin Windows**

Nikkan Mokuzai Newspaper, April 14, 2006

Wood Land Co., Ltd., Nice Group and also one of Marvin Windows agents in Japan, had developed the special extension frame that can be applied to Japanese P&B frame construction houses for Marvin Windows. Carpenters were making extension frame at jobsite to adjust with the wall thickness, sizes of studs and finishing when they installed imported windows to Japanese P&B construction houses, Wood Land introduced their new systems with demonstration at Nice Waku Waku Fair, held in April.

II. Recent Headlines

! **Deflation, zero interest rates' end may be delayed**

(05/22/2006 THE ASAHI SHIMBUN)

Sluggish growth and uncertainty about the economy's future have prompted the government to put off plans to declare an end to deflation. Sources doubt there will be a declaration during the remaining months of Prime Minister Junichiro Koizumi's term, which ends in September. His sweeping reforms are credited with helping get Japan's economy back on its feet.

The government needs to see a steady rise in prices and growth before it can declare deflation over. The move will likely trigger an end to the Bank of Japan's zero interest rate policy.

"Only one to two months ago, some people in the government were saying it would be possible to bring forward the declaration of the end of deflation," said a senior official of the

Cabinet Office, which would be responsible for such an announcement.

However, the official said, "We are now no longer in a position to have that sort of debate."

A strong yen and low stock prices have contributed to the delay, sources said, combined with the release Friday of lower-than-expected gross domestic product figures for the January to March 2006 quarter.

The growth rate was equal to an annual growth of 1.9 percent--a substantial slowdown from the 4.3 percent estimated annual rate for the previous quarter.

While indications of higher commodity prices can be seen in some indices, the GDP deflator, which reflects overall price trends, saw its 32nd consecutive quarter of declines.

Still, at a news conference following Friday's Cabinet meeting, Kaoru Yosano, the state minister in charge of economic and fiscal policy, said that if it were not for the effects of the recent rise in oil prices, the deflator would have improved.

However, Yosano avoided directly predicting an end to overall deflation.

Bank of Japan Governor Toshihiko Fukui was even more optimistic.

"When one views actual GDP statistics for the first quarter, economic conditions are steadily improving," Fukui said the same day.

Although the BOJ maintains a declaration on deflation will have no direct impact on its zero interest rate policy, the statement would make it easier to end the policy.

Many observers expect the declaration will be linked to political events.

Possible occasions for Koizumi to make the announcement include the prime minister's visit to the United States at the end of June or the Group of Eight leaders' summit set for July in Russia.(IHT/Asahi: May 22,2006)

! **Kubota confirms 33 more asbestos deaths**

(05/23/2006 THE ASAHI SHIMBUN)

Kubota Corp. confirmed an additional 33 former factory workers have died of asbestos-related illnesses, bringing the number of deaths associated with the Osaka-based machinery maker to 109, officials said.

Kubota said in June and July last year that 76 former workers at its plants died of

asbestos-related illnesses between fiscal 1978 and 2004. The figure does not include residents living near Kubota's plants.

The death toll increased after more former employees and others contacted Kubota as media reports provided details on the scale of the asbestos problem.

Of the 109 fatalities confirmed by the end of March, 104 worked at Kubota's former Kanzaki plant in Amagasaki, Hyogo Prefecture.

Of the 33 newly confirmed cases, 14 died of mesothelioma, a type of cancer caused by asbestos particles, and 30 had worked at the Kanzaki plant, according to Kubota officials. The three others worked at the company's Odawara plant in Kanagawa Prefecture. The total number of victims affected by Kubota's past asbestos use, including patients now undergoing medical treatment, has reached 132, the officials said.

Kubota in April pledged to pay up to 46 million yen to each of 88 residents who lived near a Kubota plant and developed asbestos-related cancer, or their bereaved family members. The payment will total 3.217 billion yen. The amount is almost on par with the compensation a Kubota employee would receive from workers' accident insurance.(IHT/Asahi: May 23,2006)

! **More severe building laws in the works**

(The Japan Times: Friday, May 26, 2006)

The House of Representatives passed a package of bills Thursday to revise four construction-related laws drafted in response to a scam discovered last November in which earthquake resistance data of dozens of buildings around the country were fabricated to allow developers to cut construction costs.

The bills include a revision to the Building Standards Law, which would raise the maximum penalty for architects and builders who erect unsound buildings. The package also includes changes to the registered architect law, the real estate transaction business law and the construction industry law.

The bills, which were adopted Thursday in a plenary session of the Lower House, were sent to the Upper House for further deliberation. The revisions are expected to be enacted during the current session of the Diet, which runs through June 18.

Under current law, the heaviest penalty for erecting a structurally unsound building is a 500,000 yen fine, with no prison term. The new legislation imposes imprisonment of up to three years or a fine of up to 3 million yen.

A revision in the realty transaction business law makes it mandatory for sellers to explain to customers whether the seller or the builder has an insurance policy to cover the cost of reconstruction or reinforcement should defects be found.

The infrastructure ministry plans to take additional steps this summer to prevent quake-resistance fabrications, including requiring builders to buy insurance to cover the cost of reconstruction.

III. Projects

┆ Energy Efficiency Labeling on Sash Starts

The Japanese 6 dominant sash manufacturers will start labeling program to indicate energy efficiency of their products as of July 1st 2006.

The level of thermal property will be shown by star mark (*), 4-star meaning the highest thermal property and gradually lowered to 3-star and 2-star, and nothing showing the lowest level.

This program was established to comply with the guidance issued by METI as a part of the recent revision of the Energy Conservation Law, by which METI encouraged window/sash/glass manufacturers, assemblers and importers to take any measures to indicate energy efficiency property of their products with a view to provide consumers with appropriate information on window energy efficiency.

Also from July 1st, the Japanese manufacturers will start "CP Mark" labeling program to show burglar safety property of windows as well, so that many windows shipped from July will have two labels.

Those who will start the program are:

- TOSTEM
- YKK Architectural Products
- Sankyo Aluminum Industry
- Tateyama Aluminum Industry

- Shin Nikkei
- Fuji Sash

IV. Trade Leads

? S.K.G (EBPA Japan member) for Spare Parts to repair Summit Windows

V. Activities

1. Follow up Window Energy Efficiency Labeling
2. Coordination to establish IBMF (Imported Building Materials Forum)
3. Preparation for May Mission for Housing Seminar
4. Preparation for Green Building Study Tour