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KEEPING LAND PRICES STEADY ACROSS JAPAN..... 1

Keeping land prices steady across Japan

The latest land price data from the government appears to confirm that asset deflation, in which prices of land continued falling over a protracted period, has come to an end, at least in urban centers. But the situation outside the three big metropolitan areas surrounding Tokyo, Osaka and Nagoya remains mixed, though generally improving. While land prices in the core regional cities of Sapporo, Sendai, Hiroshima and Fukuoka keep rising even faster than in the major metropolitan areas, prices in the rest of the nation’s regional economies — particularly in rural areas suffering from the population exodus — lag behind.

Rising demand for hotels and shops in response to continued increases in inbound tourists, along with a steady demand for housing fueled by increased jobs, low interest rates and tax breaks on housing loans, shore up property prices in big cities. Prices are also starting to pick up in some parts of the nation’s rural regions, but that is mostly limited to areas around prefectural capitals or in city redevelopment projects in convenient locations such as those close to key transportation hubs such as train stations.

Fixed asset taxes imposed on real estate constitute a key source of income for municipal governments. To secure stable tax revenue for the local governments, policy steps are needed to keep land prices at steady levels across the country.

According to the Land, Infrastructure, Transport and Tourism Ministry, the average price of commercial land across Japan as of July 1 rose 0.5 percent from a year earlier — extending the trend from last year when commercial land prices stopped falling for the first time in nine years. Prices in the three major metropolitan areas rose 3.5 percent for the fourth consecutive year-on-year increase, while those in the four core regional cities surged 7.9 percent on average. The gain in prices in the big metropolitan areas was the sharpest since the 2008 Lehman Brothers shock. The nation’s highest-priced plot — in Tokyo’s Ginza — was quoted at ¥38.9 million per sq. meter, surpassing the price it fetched at the height of the bubble boom in the early 1990s.

While the margin of decline in land prices in the regional economies outside the three metropolitan areas as a whole narrowed to 0.6 percent, prices kept falling in about 70 percent of the surveyed locations outside of the four regional cities — suggesting a polarizing trend in the regional economies. Residential land prices fell 0.6 percent on a nationwide average for the 26th year of decline in a row, but the margin of decline has been narrowing. Those prices gained 0.4 percent in the three metropolitan areas and increased 2.8 percent in the four core regional cities.

Despite the government’s pledge to reverse the trend, population flight to the Tokyo area continues unabated. The steep rise in land prices in Sapporo, Sendai, Hiroshima and Fukuoka is said to reflect the flow of speculative funds out of the big metropolitan areas into the regional cities, where real estate remains more affordable.

Outside these big urban areas, increases in land prices are limited to parts of cities and towns where redevelopment projects and construction of high-rise condominiums have taken place. Broad-based increases in land prices cannot be expected in rural economies suffering from depopulation.

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Keeping land prices at steady levels on a nationwide basis will be important from the viewpoint of sustaining the fixed asset tax revenue for local governments in rural areas. To this end, consolidation of city functions in those municipalities should be promoted to reinvigorate city centers.

One thing that's important in those efforts is to prevent vacant shops and unused land plots from dotting shopping streets. One idea is to separate ownership and use of the land plots, so that it would be easier for people to rent unused shops and land to open new businesses. Owners of vacant buildings and land plots should be urged not to leave their properties in deserted conditions.

What's worrying in this respect is that the number of plots whose owners are unknown — because people who inherited the property failed to register with authorities — is increasing. It is estimated that such properties across the nation combined occupy a space even larger than Kyushu. It is feared that this trend will accelerate as the inheritance of properties from the postwar baby boomer generation starts to grow in coming decades. An increase in land plots of unknown ownership poses an obstacle to city redevelopment projects, and should be stopped from the viewpoint of sustaining land prices in rural areas at steady levels.

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