



# Japan – April 2019

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PICTURE OF LAND PRICES STILL MIXED ..... 1

### Picture of land prices still mixed

The latest average land price in the nation’s regions outside the three major metropolitan areas around Tokyo, Nagoya and Osaka rose 0.4 percent from a year ago for the first increase in 27 years — yet another milestone in the recovery of land prices, which had long been depressed following the burst of the bubble boom in the early 1990s. Behind the rise in land prices nationwide, however, is a gap between areas that have succeeded in attracting more people and generating economic activities that spur real estate demand, and those that continue to suffer from population exodus and remain unable to revitalize their local economies. This polarization is expected to accelerate as the national population decline gains speed. Local governments need to compete with each other to come up with innovative measures that can draw people and business activities to their areas in order to create a virtuous cycle that pushes up land prices and sustains their tax revenue.

According to data released by the Land, Infrastructure, Transport and Tourism Ministry, average commercial land prices as of Jan. 1 rose 2.8 percent and residential land prices picked up 0.6 percent across the country. In the three big metropolitan areas, the average price of commercial land surged 5.1 percent and residential land rose 1 percent. The growth of commercial land prices in the four core regional cities of Sapporo, Sendai, Hiroshima and Fukuoka was even faster, rising 8.8 percent, 10.7 percent, 5.8 percent and 12.3 percent, respectively.

Land prices are a key indicator of economic activities because they go up when demand for houses, shops and offices is strong. Unlike during the asset-inflated bubble boom of the late 1980s to the early '90s, when land prices skyrocketed due to speculative trading, the land ministry says the ongoing uptrend is backed by real economic activities. The economy’s extended boom cycle since 2012 and the Bank of Japan’s ultra-easy monetary policy have fueled housing and office demand, while the continuing boom in inbound tourism, which saw the number of visitors from overseas rise 8.7 percent to a record 31.19 million last year, boosted hotel construction.

But while land prices rose in areas where urban redevelopment has increased convenience for residents and at popular destinations for inbound tourists, prices remained flat or falling in parts of the country that continue to experience population drains. Of the nation’s 47 prefectures, land prices either remained flat or were rising in 23, but continued to fall in 24 others — while polarization of land prices also existed within each prefecture. Land prices were more mixed in the regional areas of the country than in the big metropolitan centers. Prices continued to fall in 48 percent of the land-price survey sites outside the three metropolitan areas, while the corresponding ratio was 19 percent in the areas around Tokyo, Nagoya and Osaka.

Land prices fluctuate in response to changes in local population as well as industrial and tourism demands. When population growth spurs investments in housing and commercial establishments, the increased economic activity creates more jobs that in turn attract more people to the area. But this virtuous cycle continues to elude many of the areas that are experiencing population drains. The government’s target of equalizing the population flow into and out of greater Tokyo by 2020 — as part of its regional revitalization agenda — is nowhere in sight as the net inflow into the region swelled to nearly 140,000 last year. That shows that national government policy alone will not reverse the population flight.

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There are examples, however, of municipalities that have introduced innovative policies to attract young people and successfully increased their populations and land prices.

Commercial land prices in Akashi, Hyogo Prefecture, rose for the sixth year in a row. Its population has continued to grow over the past six years thanks to steps it took to support couples raising families, such as providing free medical services for children. The number of children is rising as the city's fertility rate exceeds the national and prefectural averages. Its tax revenues are also increasing, as land prices set the level of the fixed asset tax, a key source of income for local governments. In Higashine, Yamagata Prefecture, efforts to encourage young people to settle in the city by improving the local child-rearing environment resulted in a population increase of 3,000 since 2000, and its commercial and residential land prices rose for the first increase in 17 years and 27 years, respectively.

As the nation's total population continues to fall, competition among municipalities to attract young people will only intensify. Local governments are urged to compete by exploring policies to boost their municipalities' populations and create more jobs. This, in turn, should expand real estate demand and, consequently, strengthen their fiscal foundations through increased tax revenue from higher land prices.

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