

# Grand Design 2050

Vice Minister for Land, Infrastructure, Transport and Tourism Ishii Kisaburo answers our questions about real estate investment in Japan, the government's policies for urban development including MLIT's Grand Design 2050, and the plans for MIPIM Japan.

## What is the background to Japan's hosting of MIPIM this year?

MIPIM is the world's largest real estate trade show, and was held for the 26th time this year. MIPIM takes place annually in Cannes, France in March, attracting more than 20,000 attendees including investors, company representatives, and officials from national and local governments from around the world. In addition to various conferences and exhibitions, activities such as business meetings, exchanges of information and municipal promotional activities also take place over the course of the event. Since 2003, Japan has operated a Japan booth at MIPIM on a joint basis with the national government, local governments and businesses to disseminate information about Japan's cities and urban development to the world.

In the course of these efforts, Japan has consulted with Reed MIDEM, the operator of MIPIM, about holding MIPIM in Japan. As a result, in February last year Reed MIDEM decided to hold a Japanese version of MIPIM, dubbed MIPIM Japan. In recent years Japan has become increasingly important in the worldwide real estate market and was selected to host the 2020 Olympics and Paralympics. I believe these were key factors behind the decision to hold MIPIM Japan.

## What are the features of MIPIM Japan?

MIPIM Japan will have three main features. The first will be the introduction of active urban development projects in Japan and technologies related to promi-

nent urban development efforts such as smart cities. Secondly, municipal promotional activities will be undertaken to communicate the appeal of Japanese cities to those abroad. Lastly, networking events with Japan's major developers, construction firms, local governments and other parties will be held.

Many large-scale redevelopment projects are underway in Japan's major cities. For example, compared with twenty years ago, the Marunouchi and Otemachi areas of Tokyo's business district have undergone a surprising transformation. Around half of the buildings in the Marunouchi and Otemachi areas have already been rebuilt, and most of the remaining buildings will be renewed within the next twenty years. In Tokyo, major terminal stations such as Shinagawa, Shibuya and Ikebukuro are also undergoing significant changes. We want the attendees visiting MIPIM Japan from overseas to get a first-hand look at the ongoing innovation unfolding in the city.

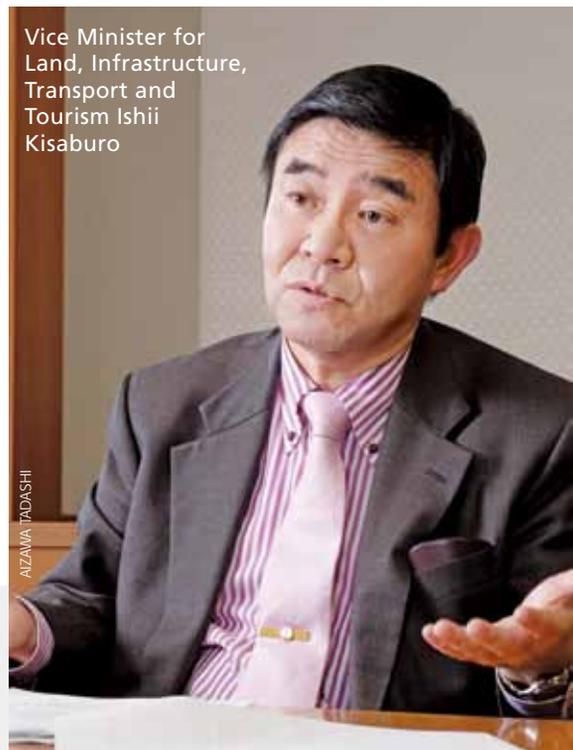
## What are the strengths of the Japanese real estate market?

According to research by the Urban Research Institute Corporation, real estate transactions in Japan announced or disclosed by listed companies, J-REITs and other entities reached four trillion yen in 2013, and exceeded five trillion yen in 2014. The booming real estate market has also continued into this year. What's more, land values and rents are on the rise, particularly

in major cities. Similarly, the office vacancy rate is low at around five percent. Even by global standards, the Japanese real estate market is very large. According to research by the UK and USA-based financial group Prudential, it is estimated that the United States has the largest income property market at around 6.8 trillion dollars, followed by Japan at around 2.7 trillion dollars. The size of the Japanese market accounts for 10.1% of the global market.

That said, the strength of Japan's real estate market is not only its size. In recent years, real estate transactions taking place in Japan have involved huge amounts, with several single transactions involving amounts ranging from the tens of billions to over a hundred billion yen. The stability that allows transactions of this size to take place with confidence could be described as one of Japan's strengths. Japan has well-developed laws as market transparency is ensured. There is also political stability. In addition, recently the effects of Abenomics have shown notable improvements in many economic indicators such as share prices, economic growth rates, corporate performance and employment. I believe Japan is currently achieving a positive economic cycle and becoming increasingly

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attractive as a market.

### What are the trends in real estate investment in Japan from overseas?

According to research by the Urban Research Institute Corporation, the monetary amount of real estate acquisitions by overseas companies and investment funds in 2014 was approximately 980 billion yen, a 2.7 times increase over the previous year. As well as the strong Japanese economy and real estate investment market, the low interest rate and the effect of the yen dropping in value some forty percent against the dollar following Abenomics are also thought to be reasons for this increase. We could say that this is a result of overseas investors looking at politics and economic conditions around the world and deciding that the Japanese real estate investment market is an extremely favorable environment. I frequently have discussions with foreign investors and they place an extremely high value on real estate in Japan's major cities.

For our part as the government, we would like to be more proactive in advancing the globalization of the real estate investment market by disseminating information on the market overseas and working to enhance real estate market transparency.

### What policies is the government pursuing to develop the real estate market?

We are doing things like revising the tax system and easing regulations to promote urban revitalization in major cities. One of these measures has been the designation of National Strategic Special Zones. Until now, companies would have to follow a large number of different procedures with multiple local governments to carry out a major development project in a large city, and it took time to get approval for development. As this process has been simplified in areas designated as National Strategic Special Zones so that procedures can be carried out in one place, it is now possible to proceed with speedy development.

On another front, in recent years Japan's Real Estate Investment Trust (J-REIT) market has expanded, with the total value of J-REIT-based property ac-

quisitions last year climbing to around 1.58 trillion yen. As Japanese society continues to age in the future, there will be an increasing need for healthcare facilities such as hospitals and nursing homes, and there is an increasing expectation that REITs will be utilized to boost the supply of these healthcare facilities. The government has formulated guidelines on the utilization of healthcare REITs that principally target investment residences for elderly people including service or nursing homes and is currently making progress to formulate guidelines on REITs that target hospitals for investment.

The government is also working to promote the infusion of private sector money into the construction and operation of public facilities. There are currently plans to operate a "concession" system where the rights to operate airports such as Kansai International Airport and Itami Airport in Osaka Prefecture and Sendai Airport in Miyagi Prefecture would be transferred to private sector firms. To promote the infusion of private sector funds into public facilities in this way, the government has relaxed regulations. In fields other than airports similar moves are underway. An increasing amount of private sector funds will be utilized in the construction and operation of various public facilities such as sewage systems and toll roads. Moving forward, the markets for these fields will continue to expand.

### Given Japan's dwindling birthrate, aging population and population decline, how will Japan make progress in urban development?

The Grand Design 2050 unveiled by the Ministry of Land, Infrastructure, Transport and Tourism in July last year summarized the philosophy and approaches to national land development leading up to the year 2050. The keywords of the Grand Design are "Compact" and "Networked." Even with the population declining in various regions, by consolidating (making compact) city functions in certain areas, government, healthcare, welfare and commercial services will be delivered to residents efficiently. In addition, by networking each region, certain population levels can be

ensured across entire networked regions. This "Compact and Networked" approach aims to develop a regional structure where exchanges between people and exchanges of information are carried out in high density to spark innovation. The Chuo Shinkansen using the superconducting maglev system that will connect Tokyo and Nagoya, and information and communication technologies that will link cities, rural areas and the outside world will further advance Japan's "Compact and Networked" concept.

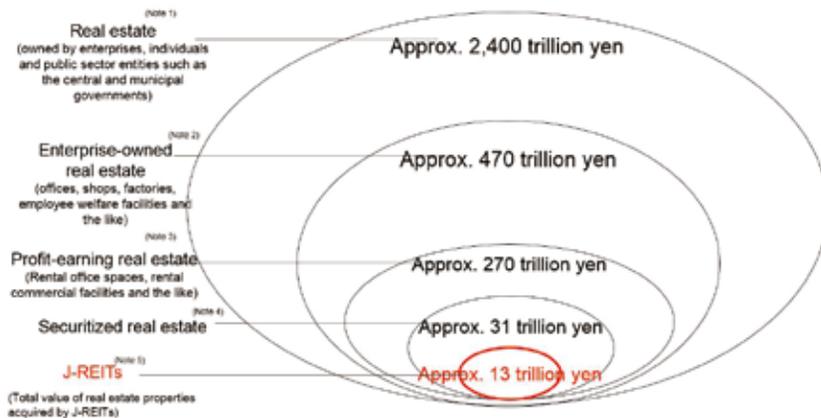
### What cities are being focused on apart from Tokyo?

Nagoya in Aichi Prefecture is one example. The Chuo Shinkansen using the superconducting maglev system that will link Tokyo and Nagoya with a 40-minute ride is scheduled to open in 2027. This has the potential to bring significant changes to Nagoya and Japan as a whole. Four major projects in front of Nagoya Station are moving ahead, including JP Gate Tower, a complex offering 260,000 m<sup>2</sup> of space due for completion in 2017. In addition, Toyota Motor Corporation, which maintains its head offices in the city of Toyota in Aichi Prefecture, was the first in the world to start selling a fuel cell vehicle, the Mirai. There is also the MRJ regional jet developed by Mitsubishi Aircraft Corporation, which is based at Nagoya Airport. The MRJ is scheduled to take its first flight soon. I take a strong interest in how maglev, along with fuel cell vehicles and regional jets will bring changes to the Nagoya area.

Elsewhere, Osaka Station, which serves around 2.4 million passengers a day, is the largest rail terminal in western Japan. From 2011 to 2013, three large-scale projects were completed around the station, producing more than 1,000,000 m<sup>2</sup> of floor area. In the future, another two major projects are slated for the area around Osaka Station. Osaka lies adjacent to the city of Kyoto, a worldwide tourism city, and the city of Kobe, which serves as a hub of cutting-edge biotechnology research facilities. I take a strong interest in how these three cities will work together to enhance the appeal and value of the region as a whole.

As for Kyushu, the city of Fukuoka is one of the few cities outside Tokyo

## Real Estate Assets and J-REIT Assets in Japan



**Note 1:** Total value of the stock of residential and non-residential buildings, other types of structures and land (source: National Accounts Statistics, 2012 revised version)

**Note 2:** Enterprise-owned real estate properties such as offices, shops, factories and employee welfare facilities. The value is presented on the basis of market value derived from the Fundamental Land Classification Survey (as of January 1, 2008)

**Note 3:** Prudential Real Estate Investors "A Bird's-eye View of Global Estate Markets: 2012 update" (translated into Japanese yen)

**Note 4:** "Fiscal 2013 Survey of Real Estate Securitization," Ministry of Land, Infrastructure, Transport and Tourism

**Note 5:** The total value of investment assets as of December 31, 2014 (source: J-REIT Report Vol. 62, ARES)

experiencing population growth. With its proximity to Asian countries such as South Korea and China, more foreign companies from around Asia are setting up shop in Fukuoka, and the number of Japanese firms relocating their headquarters to Fukuoka is also on the rise. The demand for office space in the city will increase moving forward, and if the shortage of arrival and departure slots at Fukuoka Airport is resolved, the city has the potential for even greater development.

### Four years have passed since the Great East Japan Earthquake. How is Japan proceeding with town development that is resilient to disasters?

Japan is a country susceptible to natural disasters such as earthquakes and flooding. However, Japan has applied the lessons learned from such experiences to implement disaster countermeasures. For example, when the Great Hanshin-Awaji Earthquake, an inland earthquake with an epicenter under the city, struck in 1995, many of the buildings that did not meet seismic resistance standards collapsed. The disaster prompted the national government and regional governments to provide support for the seismic retrofitting of buildings such as homes and schools. By March next year, the seismic retrofitting of public elementary and ju-

nior high schools nationwide will be almost complete. The government has also introduced more stringent earthquake-resistant design standards for roads and bridges in a bid to prevent the occurrence of fatal accidents due to road destruction and bridge collapses. Additionally, in the districts of major cities with a high density of wooden houses, efforts have been made to prevent fire spreading in the event of a blaze, such as measures to fire-proof buildings and widen roadways.

When the Great East Japan Earthquake struck in 2011, the ensuing tsunami wrought significant damage along coastal areas of the Tohoku region. Using this as a lesson, local governments all over Japan are undertaking initiatives to prepare against the highest level of tsunami. For example, to deal with tsunamis of a level likely to occur once in several decades, measures to limit tsunami damage with structures such as sea embankments are being adopted. And, for large tsunamis like that of the Great East Japan Earthquake likely to occur once in a millennium, measures are being promoted to enhance provisions for tsunami observation, upgrade the various means of swiftly communicating information about the occurrence of tsunamis, construct evacuation routes and relocate homes and other structures to higher ground. I think Japanese cities will become even

more resilient to disasters as a result.

In March this year at the 3rd UN World Conference on Disaster Risk Reduction held in Sendai, Miyagi Prefecture, one of the areas affected by the Great East Japan Earthquake, information was disseminated concerning Japan's disaster prevention and mitigation measures and its experiences recovering from disaster. Attendees from overseas gave high marks to Japan's disaster prevention measures.

### How do you think Japan's experiences and technologies in urban development might benefit cities around the world, across Asia in particular?

Following World War II, regions such as Tokyo, Nagoya and Osaka underwent rapid urbanization. In the process, these cities faced a variety of issues such as pollution and soaring land prices, but overcame them to achieve development. As the issues experienced by Japan's major cities are common to major cities around the world, particularly fast-growing Asian cities, I believe Japan's urban policies and technologies can be extremely beneficial to Asian cities. Transit-oriented development, or TOD, is one such example. This is a form of urban development centered around public transportation such as railways and buses. Japan can also contribute to town development utilizing its energy technologies. Japan has gone through two oil shocks and has created energy-saving cities that boast leading global standards.

Transportation, water supply, sewage and energy are the basic elements for managing a major city. The proper development of these elements is a crucial key to developing a city. With respect to these areas, Japan possesses technological capabilities as well as a wide range of experiences, failures included. We hope to share these capabilities with cities across Asia.

The urbanization of Asia also carries great significance for the world economy. It is important to utilize knowledge from countries around the world to find solutions to the issues each city faces. I believe Japan can seize the initiative in this respect. □

Interview by SAWAJI Osamu, *The Japan Journal*