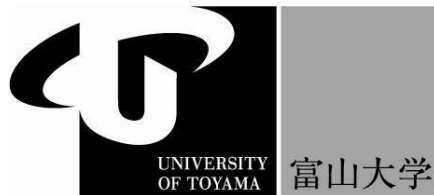


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**An Essay on The Relationship Between Suburban
Location Regulations for Large-Scale
Customer-Attracting Facilities and City Center
Revitalization Initiatives in Japan**

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An Essay on The Relationship Between Suburban Location Regulations for Large-Scale Customer-Attracting Facilities and City Center Revitalization Initiatives in Japan

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Abstract

In response to the problem of the decline of city center currently happening in Japan, this study investigated the role of the location of large-scale customer-attracting facilities regulation in the suburbs in city center revitalization in Japan. To provide relevant background, this paper reviews the history of the enactment of Japan's three city planning laws aimed at revitalizing waning city centers and traces the state of the local economy in the period of interest to assess the outcomes of the laws. The paper also describes the rationale for suburban location regulation and reports findings of the analysis of the fundamental factors that have contributed to the decline of city centers, namely urban transport, land prices, and price adjustment and vacancy rates. Regarding practical implications, this research intends to provide material that will contribute to city revitalization efforts in the form of city center decline countermeasures. Potential measures are discussed in this paper from an economic perspective, including elucidation of the benefits and drawbacks of regulating store location with respect to the suburb.

Keywords: Suburban Location Regulations, City Planning Act, City Center Revitalization
JEL classification: R14 R58

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1. Introduction

In recent years, the population and the number of business establishments have decreased in the central areas of Japanese cities, and the existence of vacant retail stores and empty houses have become a stark physical reminder of this trend. Thus far, the national government has focused on commercial policies centered on coordinating large and small stores, but the three city planning laws (i.e., The Large-Scale Retail Stores Location Law, City Center Revitalization Act, and Revised City Planning Act) take the conflicting composition of the suburbs versus city centers into consideration. The aim has been to revitalize city centers by integrally promoting three aspects of city center revitalization including considering the surrounding areas as viable space for large stores and imposing location regulations based on city planning.

However, even these measures have been unable to stop the decline of city centers, and major problems with city center revitalization planning policy have been pointed out. After voicing many opinions regarding revising the three laws, the City Planning Act was revised to regulate the location of large-scale customer-attracting facilities in the suburbs.

This paper examines whether regulation of the location of large-scale customer-attracting facilities in the suburbs can revitalize city centers with reference to Karato (2006). First, this paper reviews the history of the enactment of the three laws and the state of the local economy during that period. We will then examine the grounds for suburban location regulation. This paper also analyzes the fundamental factors underlying the decline of city centers and discusses countermeasures from an economic perspective, including the advantages and disadvantages of regulating suburban store location.

2. Historical background of the enactment of the three city planning laws and the corresponding situation of city centers

2.1 Regulation of commercial locations

The Large-Scale Retail Store Law

The Large-Scale Retail Store Law, enacted in 1974, permitted business activities through coordination with small and medium-sized retailers when opening a store of a certain size (500 m² or more) in Japan. To obtain the consent of the Chamber of Commerce which represents local small and medium retailers, it was necessary to open a commercial activity coordination council. Naturally, the Chamber of Commerce strongly opposed the establishment of large-scale retail stores in city centers, which made opening a store there extremely difficult. Consequently, many large-scale retail stores have been located in the suburbs, where it was easier to obtain consent to open a store.

Also, in response to the United States' demands regarding trade imbalances and economic practices during the Japan–U.S. Structural Talks from 1989 to 1990, the Japanese side agreed to review the entire distribution system, including revision of the Large-Scale Retail Store Law, as one of the items for improvement. Due to this deregulation and the 1992 revision of the Large-Scale Retail Store Law, new stores, including those using foreign capital, were opened one after another. Figure 1 shows the number of notifications of large-scale retail stores received at that time, demonstrating that the 1990 deregulation triggered a rapid increase in the number of large-scale stores (store area of 500 m² or more).

Figure 1 Number of notifications of large-scale retail stores.

The Large-Scale Retail Stores Location Law

In 2000, the Large-Scale Retail Store Law was abolished, and the Large-Scale Retail Stores Location Law was enforced. The Large-Scale Retail Stores Location Law stipulates that when a large-scale store with an area of more than 1,000 m² is established, the proprietor must consider the surrounding area in keeping with environmental guidelines, such as those concerning the installation of parking lots, noise prevention, and waste disposal. If these factors are taken into account under this law, large stores can be established under the City Planning Act. This strengthened the incentive to open stores in the suburbs because there were fewer residents to consider in the suburbs than in the city center and suburban land prices were low, which made it easier to develop parking lots. This law was intended to be a coordinating regulation to secure business opportunities for small and medium-sized retailers, but it resulted in the hollowing out of city centers. However, as Matsuura and Motohashi (2006) showed in their empirical analysis, the expansion of large-scale stores may have attracted more customers, and there may have been a synergistic effect between large and small stores in Japan.

The number of notifications of large-scale retail stores, as shown in Figure 1, has plummeted since 2000, when the Large-Scale Retail Stores Location Law was enacted, but this is because the law sets the notification standard at 1,000 m² or more, and stores with smaller floor areas are not covered. Figure 2 shows the distribution of notified store floor areas after the enactment of the Large-Scale Retail Stores Location Law (2000–2005). Notifications pertaining to stores with an area less than 3,000 m² accounted for 52%, and large-scale stores exceeding 10,000 m² accounted for 28%. Figure 3 shows changes in the number of shopping centers by location. Until 1969, most shopping centers were located in central areas, but the portion in suburban areas has been increasing annually. However, since the 1990s, the percentage of facilities located in central areas has fallen below 20%.

Figure 2 Distribution of notified store floor areas after the enactment of the Large-Scale Retail Stores Location Law (2000–2005)

Figure 3 Trends in the number and ratio of shopping centers by location

2.2 City Planning Act

The abovementioned Large-Scale Retail Stores Location Law only stipulates consideration of the surrounding area in terms of environmental guidelines, and specific location control is carried out based on the revised City Planning Act. Under the City Planning Act, large-scale stores are not allowed to open in exclusively residential zoning areas (excluding Category II residential areas). Within the zoning area, it is possible to open a store of any size in Category II residential areas, semi-residential areas, industrial areas, neighborhood commercial areas, commercial areas, semi-industrial areas, and undesignated areas.

In terms of the location of large-scale commercial facilities by area after the enactment of the three city planning laws, the number of such facilities in commercial areas within regional cities decreased significantly, and the number in non-delineated city planning areas, quasi-city

planning areas, undesignated areas, and industrial areas has been increasing in Japan.¹ Zoning is not practiced outside city planning areas, except in cases concerning a quasi-city planning area (per the 2000 revision). Consequently, large-scale stores have opened one after another in such regions, which account for most of the country.

2.3 City Center Revitalization Act

Decline of city centers

Various statistics have shown that the decline of city centers is becoming more serious as provincial cities' commercial functions spread from the central area to the suburbs in Japan. For example, compared to the 1970s, the ratio of the population in city centers (3 x 3 km) to that in entire cities decreased by about 5% for cities with a population of 500,000 or less and by about 8% for cities with a population of 500,000 or more (excluding the three major metropolitan areas). Further, the number of establishments has decreased by about 5% in small cities, and in particular, retail sales in central areas have fallen from accounting for 40% to 50% of total sales in the entire city in the 1970s to currently comprising around 30%.²

Moreover, the rental office vacancy rate has risen in recent years, reflecting these factors. Figures 4-1 to 4-3 show changes in office vacancy rates (1990–2002) in major cities nationwide. Before the collapse of the bubble economy in the early 1990s, the nationwide office market was extremely tight, and the vacancy rate was extremely low. Evidently, vacancy rates rose with the deterioration of the economy and reached a temporary peak around 1993–1994. Although the office market seemed to recover in 1997, vacancy rates have risen sharply since then. This is an almost nationwide phenomenon. In particular, the vacancy rates in provincial cities have increased significantly compared to in large cities, reaching nearly 30% in the city of Hakodate, for example.

Figure 4-1 Office vacancy rates in three major metropolitans (Tokyo, Osaka, Nagoya)

Figure 4-2 Office vacancy rates in provincial metropolis (Sapporo, Sendai, Hiroshima, Fukuoka)

Figure 4-3 Office vacancy rates in provincial cities (Hakodate, Aomori, Kanazawa, Takamatsu, Kumamoto)

Pedestrian traffic, which more directly indicates activity in the city center, has also decreased significantly. For example, the traffic volume at the center of Toyama City (2005) is currently almost half what it was 10 years ago,³ and that at the center of Mito City (2003) has decreased by 27% compared to the figure derived from the results of a survey conducted 4 years ago.⁴

Additionally, given that the number of large departments stores and shopping centers withdrawing from city centers and the number of vacant stores, and lots is increasing, many opinions and ideas have started to be raised regarding issues such as the city's aesthetic

¹ Ministry of Land, Infrastructure, Transport and Tourism, Social Infrastructure Development Council (2006)

² Ministry of Land, Infrastructure, Transport and Tourism, Social Infrastructure Development Council (2006)

³ Toyama City, Toyama Chamber of Commerce and Industry (2005).

⁴ Mito City (2005)

appearance, community maintenance, and the efficient use of infrastructure.⁵

Support from the national government to local governments

In response to this serious situation, the City Center Revitalization Act was enacted in 1998 to integrally promote the development and improvement of city centers and the revitalization of commerce. Through this Act, the national government has provided local governments with support through subsidies for their basic plans for revitalization. More specifically, this includes tangible support, intangible support, and support for Town Management Organizations (TMOs).⁶

Even before the City Center Revitalization Act was enacted, individual revitalization measures had been put forward, but they have been biased toward tangible support directed mainly at improving the environment. Tangible support takes the form of subsidies to TMOs and local governments for highly public services such as parking lots, arcades, streetlights, multipurpose halls, and rest areas. Intangible support includes subsidies to promote commerce, in addition to improving the environment. Specifically, the subsidies are intended to contribute to store maintenance, preparations to open new stores, the hosting of various events, rent, and renovation costs for large vacant stores. TMO support consists of subsidies for projects involving, for example, the planning and utilization of human resources for revitalizing TMO activities. As of August 2004, 642 basic plans for city center revitalization had been prepared, and there were 336 approved TMO concepts.

For instance, in Kanazawa City, Ishikawa Prefecture (basic plan formulated in November 1998), about 2.2 billion yen was disbursed in subsidies up to 2003 for the development of paved sidewalks and multipurpose halls. In Fukuyama City, Hiroshima Prefecture (basic plan formulated in March 1999), approximately 460 million yen was disbursed in subsidies up to 2003 for the development of multipurpose halls, rental galleries, culture classes, etc.⁷

3. Evaluation of city center revitalization efforts and review of the three city planning laws

3.1 Evaluation of city center revitalization efforts

The Ministry of Internal Affairs and Communications (2004) conducts administrative evaluation and monitoring of city center revitalization. In the referenced evaluation, 138 municipalities were selected from among the municipalities that had drafted basic plans as of the end of 2001 across 20 prefectures, and surveys were conducted on the status of preparation of basic plans and related project implementation.

Five items have been defined as indicators of activation status, namely population, number of stores, annual product sales, number of establishments, and number of employees. Based on these, an examination of transition statuses revealed that most municipalities showed decreasing values for all items (Table 1). City centers' occupancy rates in comparison with other areas were also lower across all items (Table 2). Furthermore, 59% of cities and towns stated that their city center had not been revitalized and that only a small number of municipalities are recognized as having been revitalized.

⁵ Yahagi (2005) and the Architectural Institute of Japan (2005).

⁶ Small and Medium Enterprises Agency. (2003)

⁷ Distribution Industry Division, Ministry of Economy, Trade and Industry (2004).

Table 1 Percentage of municipalities (of 121 municipalities in total) with increased (decreased) revitalization status indicators

Table 2 Percentage of municipalities (of 121 municipalities in total) where the ratio of revitalization status indicators within the total for all municipalities increased (decreased)

Problems with the formulation of basic plans have also been pointed out. Only 10% of all cities and towns have set specific numerical targets, and in some cases, the requirements have not been met or are ambiguous regarding the setting of city centers. Although it is desirable to promote projects that are consistent with the basic concepts of city planning based on the Local Autonomy Act, there are many unclear points pertaining to the integration of urban development (tangible) and commercial promotion (intangible). Recommendations to set specific numerical targets for plans (including the effectiveness of setting numerical targets) have been submitted to the four relevant ministries (i.e., Ministry of Internal Affairs and Communications; Ministry of Agriculture, Forestry and Fisheries; Ministry of Economy, Trade and Industry; and Ministry of Land, Infrastructure, Transport and Tourism).

In terms of promoting commerce, it is said that efforts will be made to develop a system for cooperation with private businesses, but the current situation is unsatisfactory. Additionally, 70% of revitalization projects are implemented by TMOs, which are intertwined with the Chamber of Commerce. However, TMOs have been limited to project planning and coordination, with the disadvantages of it being difficult to reach a consensus and the fact that the joint decision-making process is time-consuming.⁸

Although the basic policy states that municipalities should change their basic plans when appropriate, only 70% of municipalities are aware of the progress of projects, and only 13% have kept track of the achievement status.

3.2 Revision of the three city planning laws

The revitalization measures based on the City Center Revitalization Act have not proven to be very effective at the level of basic plans. Currently, the measures' effects have not yet been seen in Japan. Moreover, the Large-Scale Retail Stores Location Law and the City Planning Act accelerated the establishment of large-scale stores in the suburbs, which contributed significantly to the decline of city centers.

Due to the increase in the number of large-scale stores located in non-delineated city planning areas and quasi-city planning areas in undesignated areas, the City Planning Act, which is to be revised again, will stipulate that "City planning procedures will be undertaken to secure appropriate locations that reflect the judgment of the region" regarding the location of large-scale customer-attracting facilities (stores with a floor area of over 10,000 m², movie theaters, amusement facilities, exhibitions, etc.).⁹ The existing location regulations for exclusively residential areas and first-class residential areas will remain unchanged, and there will be no restrictions on locating stores in commercial districts, etc., but location regulations will be newly imposed in second-class residential areas, semi-residential areas, and industrial districts. In other words, the location of large-scale customer-attracting facilities will be prohibited in

⁸ Yokouchi (2006).

⁹ Ministry of Land, Infrastructure, Transport and Tourism (2006) "Bill for Partial Revision of the City Planning Act for the Orderly Development of Cities."

principle in the suburbs and will be limited to city centers. Additionally, facilities such as hospitals, schools, and government buildings in urbanization control areas will, for the first time, require development permits. Additionally, after the revision of the Act, the construction of public facilities will also be directed to city centers.

4. The relationship of suburban location regulation with the decline of city centers

4.1 Evidence supporting suburban location regulations for large-scale customer-attracting facilities

What are the grounds for regulating the location of large-scale customer-attracting facilities in the suburbs?

The first reason is that having large-scale customer-attracting facilities in the suburbs causes the decline of city centers. Harmful effects arise when a city's "center" becomes scattered, the utilization efficiency of infrastructure in city centers that have functioned as effective stock decreases, and the various social effects (i.e., exchange, liveliness, culture, the face of the city) of the concentration of urban functions disappear (Ministry of Land, Infrastructure, Transport and Tourism Social Infrastructure Development Council, 2006).

The second point concerns the negative effects of the scrap-and-build method, which is a chain management theory for large suburban stores. Yahagi (2005) referred to this as slash-and-burn commerce and has pointed out that, in the suburbs of local cities, large-scale stores remain after they have closed, which leads to the destruction of the natural environment, including agricultural land, that deteriorates as if being eaten away by worms, and it is feared that it will have irreversible negative effects on the balance of the entire environmental system.

The third point is that, as urban structures spread, the infrastructure maintenance cost increases, and due to the pressure on city management, the national and local governments' finances will suffer further. Therefore, it is necessary to regulate the location of large-scale customer-attracting facilities in the suburbs and shift from an automobile-dependent society to walkable compact cities.

The above argument is direct and very easy to understand. From an emotional perspective, many people would be saddened by the sight of a deserted shopping district with the shutters down. However, as Kanemoto (2005) has pointed out, "Problems with obvious 'symptoms,' such as the 'issue with city centers,' tend to invite 'government failure.' Not only are we so preoccupied with 'symptoms', but we also tend to forget to analyze their causes." To justify government intervention, it is necessary to evaluate the social benefits and social costs of interventions on a case-by-case basis. According to the Ministry of Internal Affairs and Communications' "Administrative Evaluation and Monitoring Report on the Revitalization of City Centers" (2004), which was mentioned in the previous section, it is difficult to say that city centers have been revitalized even though local governments have received millions of dollars in subsidies for years.

4.2 Factors in the decline of city centers

Urban transport and urban structures

Why have city centers declined in the first place? The biggest factor in the decline of city centers--a factor that should have received preferential treatment in commercial policies and land use regulations--is the drastic drop in per citizen transportation costs due to the increase in private car ownership. In 1980, per capita private car ownership was 0.19, but in 2000, it

doubled to 0.40.¹⁰ The increase in rural areas in particular is remarkable. In the past 20 years, the number of private cars owned per capita in Tokyo increased by 1.7 times, whereas in all prefectures, excluding the three major metropolitan areas, it increased by 2.2 times on average. Figure 5 is a scatter diagram of per capita private vehicle ownership and population by prefecture. Clearly, the per capita private car ownership rate is low in the Tokyo metropolitan area (Tokyo, Chiba, Saitama, Kanagawa), the Kei-Han-Shin area (Kyoto, Osaka, Hyogo), and the Chukyo area (Aichi). This shows that the impact of lower transportation costs has been relatively greater in small and medium-sized local cities than in large cities.

Figure 5 Magnitude of per capita private vehicle ownership and population across Japanese prefectures

Economic theory has also made it clear that changes in transportation costs directly change urban structures. Fujita and Ogawa (1982) and Imai (1982) clarified how urban structures are determined by devising a model that simultaneously determines the location of offices and the location of households commuting to the business districts where those offices are located. Urban structures are determined according to agglomeration benefits generated by proximity between offices and household commuting costs. Cities with high agglomeration benefits tend to form single-center cities, whereas low commuting costs lead to cities with multiple centers. The reason for this is that the wages companies pay office workers are nominal values, and households' real wages are those nominal values minus commuting costs. This disparity incentivizes companies to change the location of their offices. The abovementioned studies assumed that the major determinant of undulations in urban population distribution is a proximity advantage with respect to the area where offices are concentrated. Hence, replacing commuting patterns with shopping patterns and offices with retail stores explains the loss of downtown areas' former locational advantage.

Furthermore, over the last 20 years, residents have moved to the suburbs due to rising land prices. As seen in Section 2, in recent years, there has been a movement to return to city centers in large cities such as Tokyo and Osaka, but the outflow has not stopped in rural areas. The outflow of households to the suburbs in local cities is thought to be due not only to the increased convenience of automobile use but also to the way land prices are determined in city centers.

Regulation through land prices and city planning

One of the reasons for the suburbanization of Tokyo is the uniform floor area ratio stipulated in regulations related to city planning. Statistically, it is generally shown that the allowable payment amount (rent and land rent) for office use is higher than that for residential use. This means that under the current uniform floor area ratio regulations, residential use will inevitably be excluded in city centers.¹¹ On the other hand, in the central areas of provincial cities, floor area ratios are often set to overly high values, and high land valuations that reflect the potential for high-level nominal utilization hinder redevelopment projects (Ministry of Land, Infrastructure, Transport and Tourism & Social Infrastructure Development Council, 2006). In other words, not only is it impossible to stop the exodus from rural areas but there are also major barriers to entry. This trend will have a more serious impact if the outflow of population and businesses from city centers to the suburbs continues.

¹⁰ Data were obtained from the Japan Automobile Inspection and Registration Cooperation Foundation: <http://www.aira.or.jp/>.

¹¹ For example, Hatta and Karato (2006, 2007).

Price adjustment functions and vacancy rates

To consider the relationship between the evaluation of land prices in central Tokyo and market land prices, it is useful to compare the speed of land price adjustment and the natural office vacancy rate, etc., between Tokyo and rural areas. If the regulation of floor area ratio is an approximation of the effective floor area ratio as determined by the market economy, then any land price evaluation that reflects the possibility of advanced use can be considered as a market evaluation. In this study, we regressed the office rent increase rate (%), which is considered to be a substitute for the value of land in city centers, on a constant term, and referenced the previous year's office building vacancy rate (%), and then calculated the adjustment speed and natural vacancy rate using the estimated values.¹² Eleven cities (Morioka City, Aomori City, Kanazawa City, Toyama City, Fukui City, Shizuoka City, Okayama City, Takamatsu City, Matsuyama City, Kumamoto City, and Kagoshima City) are suitable to furnish office market data representing local cities for a sufficient period (1990–2003) were analyzed (data were obtained from the Ikoma Data Service System's "Real Estate White Paper").

Table 3 shows the results of the above regression analysis based on the panel data of 11 city units. The coefficient of the previous year's vacancy rate was -0.433 in the RE model.¹³ The natural vacancy rate can be measured as 8.9% (standard error 1.30%, 99% confidence interval [5.53, 12.23]). Regarding Karato (2003), who investigated the adjustment speed in central Tokyo, the estimated adjustment speed was between -1.87 and -1.28 for the same period using the closest estimation model, and the natural vacancy rate was 3.4%. Rural areas have a slow adjustment speed, and the natural vacancy rate there is more than twice that of Tokyo, which is a considerable difference. As seen in Section 2, the reason for the low rate of rent decline even though the vacancy rate in rural areas has remained very high may be because the floor area ratio is set at an excessively high level.

Table 3: Office rent adjustment speed in local cities

As described above, the persistently high land prices and rent, along with the slow price adjustment rate, are thought to be preventing new entrants into urban areas. Of course, one of the major reasons for the lack of active entry is that land is subdivided and there are many landowners. In any case, since there is no driving force for development, if the residents are aging and the commercial functions are obsolete, the decline will inevitably ensue.

5. Concluding remarks and prospects for revitalization of city centers

5.1 Problems with evidence supporting suburban location regulations

In the period leading up to the revision of the three city planning laws in recent years, commercial policies have seemed to be shifting from being concerned with the conflicting composition of large and small stores to addressing that between suburbs and city centers. Will suburban location regulations for large-scale customer-attracting facilities, like the revised City

¹² The natural vacancy rate is defined as the vacancy rate when the office rent increase rate is zero.

¹³ RE is the random effect model, in which the constant term fluctuates stochastically, and FE is the estimation result derived from the fixed effect model, in which the constant term is estimated for each unit. The Hausman test tests the null hypothesis that the correlation between the disturbance term and the explanatory variables is zero. In this case, the null hypothesis cannot be rejected because the probability value is sufficiently high, and the results of the RE model are preferable.

Planning Act, revitalize city centers?

The important point is whether the revitalization of city centers will benefit residents as a whole (i.e., the city as a whole). If policymakers frame a conflicting composition of suburbs and city centers, location regulations may only be effective at adjusting supply and demand in a manner similar to that seen in the past and may only protect the vested interests of city center residents. If all retailers are prohibited from opening stores in the suburbs and all existing suburban stores are removed, residents will have no choice but to shop in the existing city centers (of course, city centers will be revitalized in this case). However, such a policy undermines the interests of suburban residents.

The same is true regarding restricting automobile use. Now that the use of automobiles in provincial cities has become a part of life, it will only result in undermining residents' interests. In Tokyo, a large-scale railway network was, coincidentally, completed before motorized society had progressed, so the urban structure there allows people to live without a car. However, in many of the provincial cities that depend heavily on automobile use, the situation has reached a point where it is practically impossible to change the urban structure to one based on public transportation.

Problems with large chain store management policies have also emerged. Regarding the aesthetic problem of leaving empty stores and waste materials behind, a solution that would avoid physical evidence of desertion would be to include withdrawal-related matters among the location conditions considered in the process of coordinating between store proprietors and the local government. Alternatively, it may be necessary to impose some sort of penalty on large chain stores that are contemplating opening new stores--while leaving the abandoned stores as they are to eventually deteriorate--in the form of a measure at the national level.

The argument that the spread of urban structures will increase infrastructure maintenance costs and put pressure on city management is directly linked to the question of how to bear the costs. Regulation is not the only means of government intervention in the face of market failure; in fact, it is likely not the best choice. If large suburban stores are not paying adequate infrastructure fees and social costs, taxing them accordingly results in less deadweight than regulation through city planning. The same is true for road congestion caused by the location of large stores.

5.2 Prospects for revitalization of city centers

It is difficult to explain whether it is economically rational to directly regulate suburban store locations. This is because the amount of social cost (and social benefit) that is generated depends on the location and the type of entity on a case-by-case basis. For this reason, it is also important to measure externalities, and government intervention should start where these measurements are taken.

Furthermore, if the purpose is to revitalize city centers (i.e., if it is agreed upon as the most desirable policy goal for all residents), then only regulating suburban locations while leaving the problems of city centers aside will not lead to a fundamental solution. The opinion "One of the reasons why Japan's measures have so far lacked effectiveness is that they have tended to focus on a combination of symptomatic treatments that are easy to tackle but have not properly developed the perspective of causative treatments" (Development Bank of Japan, 2000) seems to be on point.

The factors that have contributed to the decline of city centers are as described in Section 4.2. The abovementioned "perspective of causative treatments" involves clarifying methods to clear the problems being faced in city centers. Some have also attributed the decline of central

shopping districts to their lack of ingenuity as retail businesses, compared to large stores in the suburbs. To suppress labor costs, suburban shopping centers have thoroughly made operations more logical and product lineups more efficient and have examined the best variety of tenants. Problems exist concerning commercial technology, such as the central shopping district being closed at night and on holidays, difficulties securing parking spaces, and failure to meet consumer needs. Of course, many shopkeepers are aware of this, and although they may not be able to compete on price, they are likely desirous of focusing on different quality products and services.

In the market, stores that have lost consumer support will be weeded out, but since management and ownership are not separated, only vacant stores will be left in shopping districts. It is necessary to change the nature of inheritance tax and property tax in order to adjust the subdivided land and the relationship between rights to prepare the land for easy entry. There is a clear consensus, including among residents in the suburbs, that "City centers are necessary" and that they "belong to the residents." If the opportunity costs of leaving city centers unattended cannot be ignored, a property tax that is differentiated according to spatial importance must be imposed. To deal with the fundamental cause of low awareness of efforts toward revitalization among landowners, it is necessary to clearly establish that the city center belongs to all residents and is not dedicated to servicing landowners' vested interests and implement policies accordingly.

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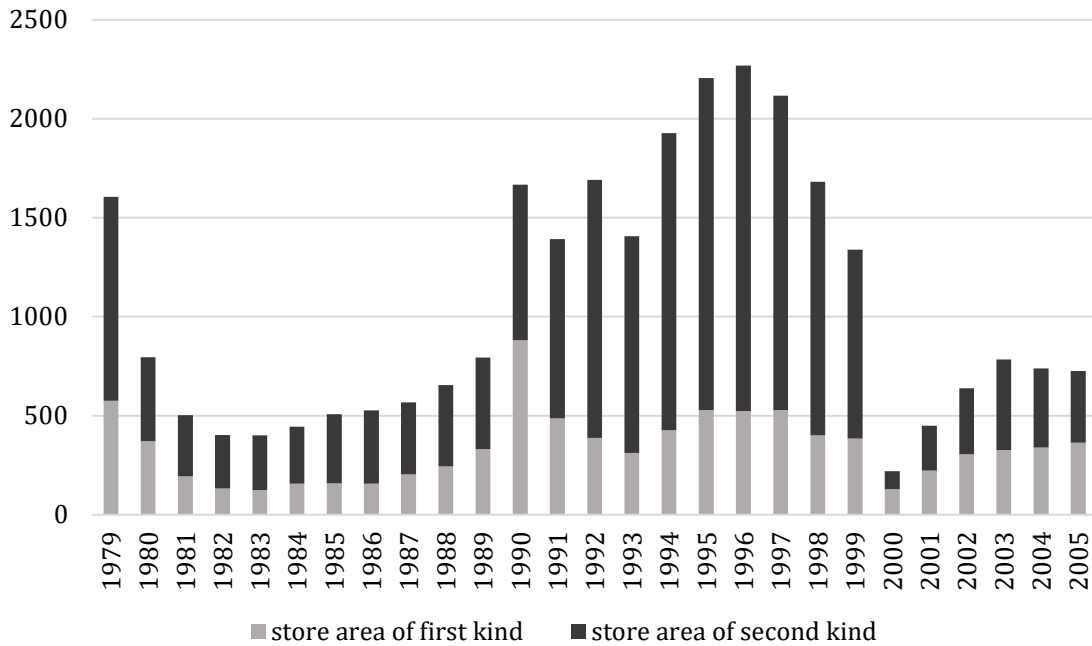


Figure 1 Number of notifications of large-scale retail stores.

Note: For the store area of first kind, the total store area in the building is 3,000 m² or more. For the store area of second kind, the total store area in the building is less than 3,000m².

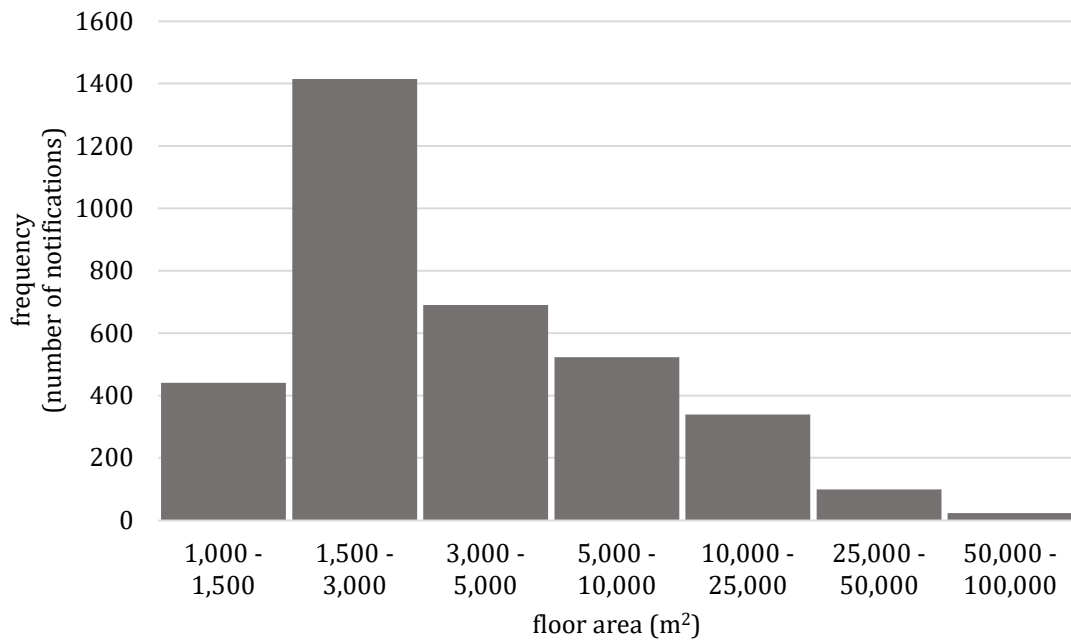


Figure 2 Distribution of notified store floor areas after the enactment of the Large-Scale Retail Stores Location Law (2000-2005)

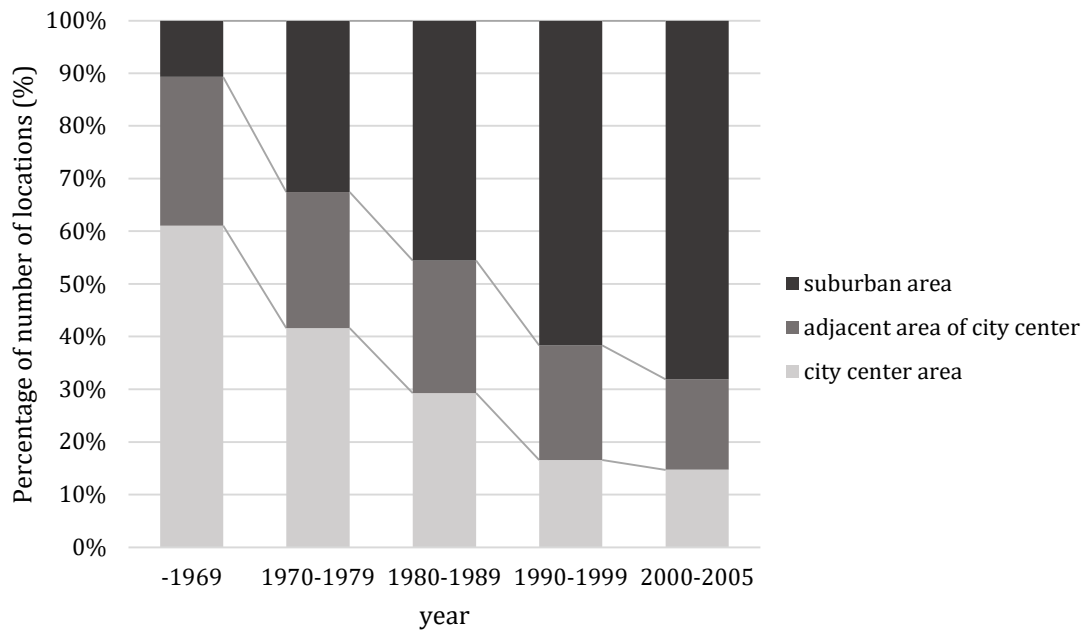


Figure 3 Trends in the number and ratio of shopping centers by location

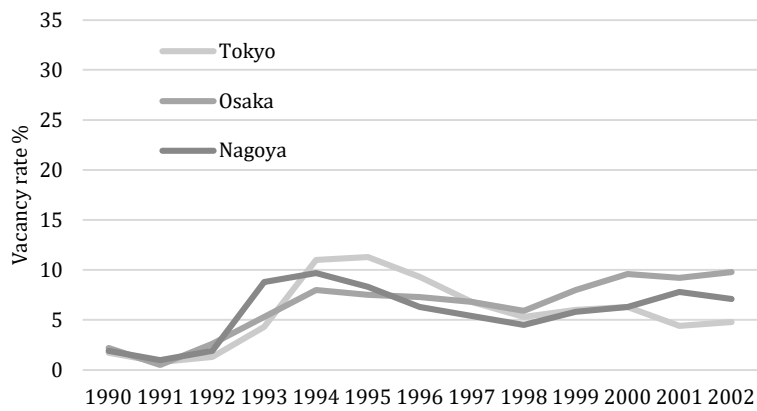


Figure 4-1 Office vacancy rates in three major metropolitans (Tokyo, Osaka, Nagoya)

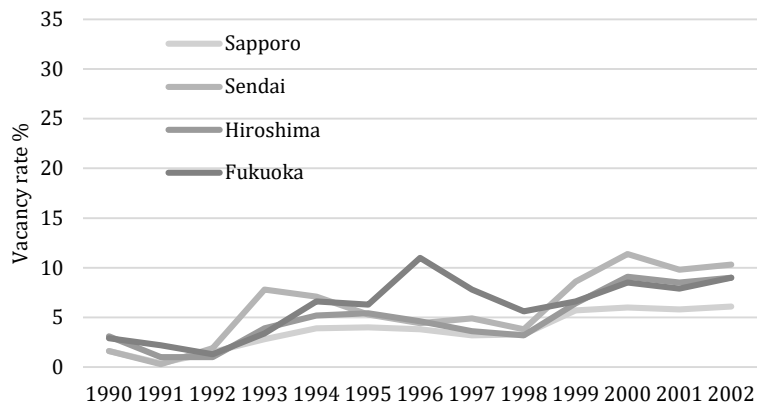


Figure 4-2 Office vacancy rates in provincial metropolis (Sapporo, Sendai, Hiroshima, Fukuoka)

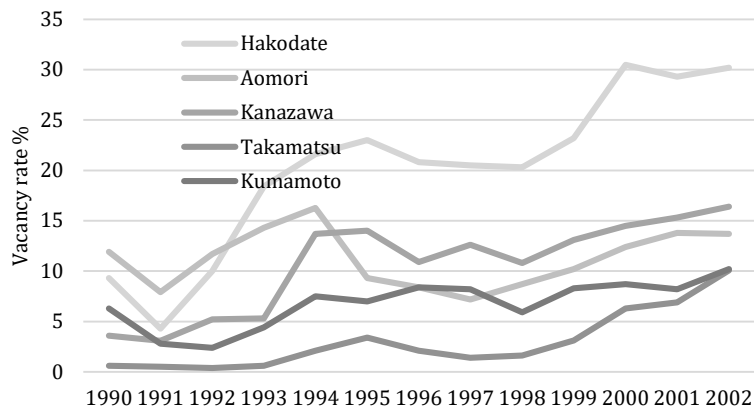


Figure 4-3 Office vacancy rates in provincial cities (Hakodate, Aomori, Kanazawa, Takamatsu, Kumamoto)

Table 1 Percentage of municipalities (of 121 municipalities in total) with increased (decreased) revitalization status indicators

| indicators | increase % | decrease % |
|----------------------|------------|------------|
| population | 31 | 69 |
| number of stores | 7 | 93 |
| annual product sales | 6 | 94 |
| number of offices | 7 | 93 |
| number of employees | 17 | 83 |

Note: Source is Ministry of Internal Affairs and Communications (2004) Administrative evaluation and monitoring of city center revitalization.

Table 2 Percentage of municipalities (of 121 municipalities in total) where the ratio of revitalization status indicators within the total for all municipalities increased (decreased)

| indicators | increase % | decrease % |
|----------------------|------------|------------|
| population | 28 | 72 |
| number of stores | 20 | 80 |
| annual product sales | 12 | 88 |
| number of offices | 14 | 86 |
| number of employees | 27 | 73 |

Note: Source is Ministry of Internal Affairs and Communications (2004) Administrative evaluation and monitoring of city center revitalization.

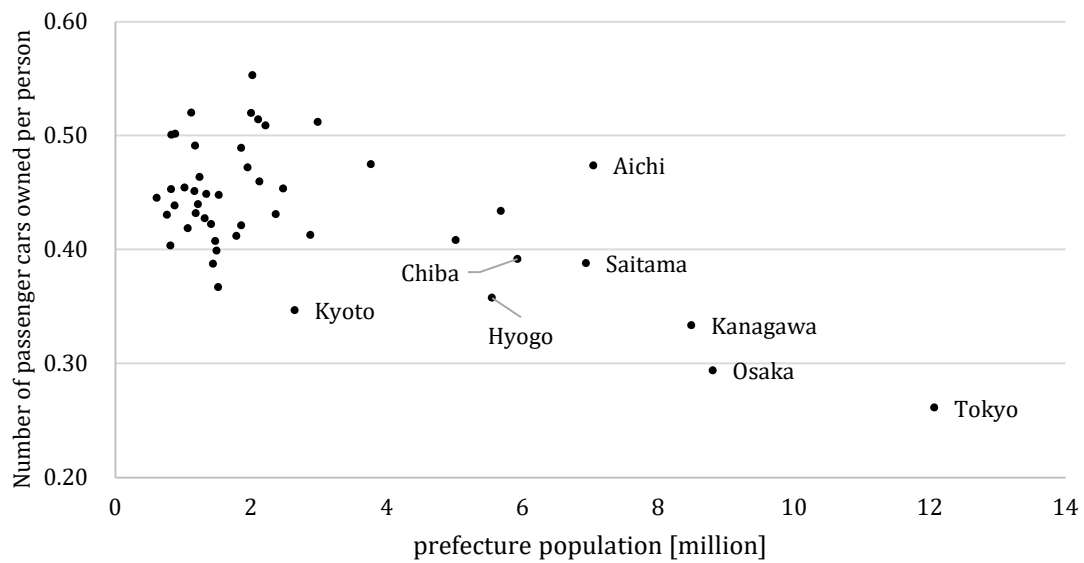


Figure 5 Magnitude of per capita private vehicle ownership and population across Japanese prefectures

Note: The source is Association for Automobile Inspection and Registration Cooperation and Ministry of Internal Affairs and Communications National Census.

Table 3: Office rent adjustment speed in local cities

| | RE | FE |
|----------------|----------|----------|
| previous year | -0.433 | -0.566 |
| vacancy rate % | (-4.088) | (-4.435) |
| constant term | 3.850 | 4.454 |
| | (4.198) | (2.831) |
| Hausman test | 1.402 | |
| p-value | [.2364] | |
| sample size | 143 | |

Note: Parentheses indicate *t*-values. Hausman test statistics follow chi-square distribution with 1 degree of freedom.