

Japan's Land Prices Show Signs of a Rebound

– Foreign Capital Flowing Rapidly Into Japan –

AT long last, land prices in Japan have begun to show signs of rising after a downward spiral that has lasted for more than a decade. In Tokyo, the average price of land fronting major streets rose for the first time in 13 years, increasing 0.4% as of Jan. 1, 2005, from a year earlier, according to the National Tax Agency. The average land price nationwide fell 3.4%, extending its falling streak for the 13th consecutive year but the margin of decline was the smallest since 1993. Of the 47 prefectures, more than 60% saw a smaller margin of decline.

The signs of a turnaround in land prices stem in part from an increasing number of redevelopment projects in major cities triggered by the economic recovery. An active

inflow of “Japan buying” capital from foreign investment funds and financial institutions is another factor behind the trend. “Land prices in Tokyo, one of the world’s largest financial centers, now look relatively cheap compared to New York and London after a decade-long downward spiral caused by the collapse of the bubble economy,” says a US financial institution. Based on such a view, a total of ¥3 trillion to ¥4 trillion worth of foreign money has been invested in Japan over the last few years, the Japanese real estate industry has estimated.

The fast inflow of foreign capital has also apparently been spurred by the government’s call for megabanks to quickly dis-

pose of their bad assets, which has led them to ask foreign firms to rehabilitate debt-ridden borrowers.

In 1989, Mitsubishi Estate bought Rockefeller Center in New York. At that time, Japanese money dominated real estate markets in the world. In stark contrast, foreign funds are now actively buying landmark buildings in central Tokyo one after another.

The popularity of real estate investment trusts (REITs) has begun to show signs of subsiding, however, reflecting growing concern about possible real-estate bubbles. “Foreign money moves into Japan rapidly but also moves out quickly,” warns a Japanese real estate broker.