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# Mizuho Economic Outlook & Analysis

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January 16, 2019

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## *Land prices in regional areas recover thanks to expanding inbound demand*

### < Summary >

- ◆ The real estate market in 2018 performed steadily. Thanks to an increase in the number of foreign tourists visiting regional areas, land prices in commercial and residential areas are rising not only in the three major metropolitan areas but also in regional areas.
- ◆ According to a text analysis, a rise in the number of visitors to Japan is pushing up the demand for hotels and stores, with the strong possibility that foreign tourists are contributing to the improvement of land prices. Our quantitative analysis revealed that the increase in foreign hotel guests is having a significant effect in driving up commercial and residential land prices.
- ◆ To accommodate the increase in foreign tourists in regional areas across Japan, it is important to improve traffic networks and other infrastructure. The key factors to support these initiatives include stimulating the demand for domestic travel among Japanese people and inviting more tourists to regional areas.

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## 1. The real estate market in 2018 remains firm; foreign visitors to Japan are gaining more presence

In 2018, while there was concern that the real estate market would peak out by the yearend, the market actually remained steady throughout the year. In November 2018, the Japan Real Estate Institute released the “Japanese Real Estate Investor Survey” (as of October 2018),<sup>1</sup> showing that while many investors believe the real estate market cycle in Tokyo<sup>2</sup> remains at its peak, investors who think the market has yet to reach that point are increasing (**Chart 1**). The situation does not reflect mounting concerns that the real estate market has peaked, as more investors anticipate another rally in the market. **Chart 2** depicts the future outlook of different asset classes. The chart shows that over half of all investors in all asset categories believe that the current boom will last until around 2020, revealing that investors are taking an optimistic view that the real estate market will continue to perform steadily in the near future.

Land price trends also support the firmness of the real estate market. According to the 2018 Prefectural Land Price Survey<sup>3</sup> released in September 2018, land prices for all purposes in average marked positive growth for the first time since 1991. Looking at the details, growth was driven largely by rising commercial land prices and a smaller year-on-year decline rate in residential land prices, with both factors contributing to positive growth in overall land prices. By area, commercial and residential areas in the three major metropolitan areas grew stronger, and the year-on-year decline rate in commercial and residential land prices in regional areas<sup>4</sup> was also smaller and seems to have bottomed out (**Chart 3**).<sup>5</sup>

According to Hirayoshi and Miyajima (2018), several factors lie behind the rise in land prices, for example, the need to improve the office environment to secure more company human resources, the heightening interest in high-quality residential properties due to an increase in double income households, and the strong demand for hotels and stores to accommodate the soaring number of foreign tourists.

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<sup>1</sup> A survey covering 197 companies including asset managers, arrangers, developers, life insurance firms, commercial banks/lenders, investment banks, pension funds, and real estate rental firms, among others.

<sup>2</sup> Looking at the current status of the market cycle of Osaka (Midosuji area), recognition that the market remains at its peak, just like in Tokyo, is prominent. Recognition that the market is nearing its peak is also increasing.

<sup>3</sup> The 2018 Prefectural Land Price Survey was conducted covering 21,578 spots nationwide and evaluated the value of land as of July 1.

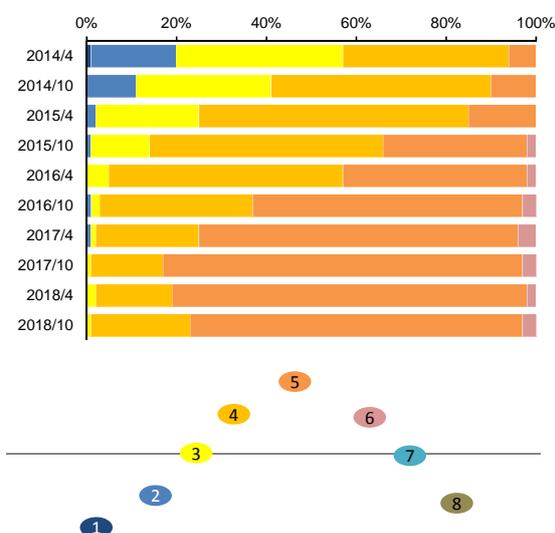
<sup>4</sup> Regional areas are divided into four regional cities (Sapporo, Sendai, Hiroshima, Fukuoka and others (municipalities other than the four regional cities). The four regional cities have seen the growth rate of land value expand for both commercial and residential land, while the rate of the year-on-year land value decline is contracting in other areas.

<sup>5</sup> In terms of the current status of the office market in each urban area, the real estate market was evaluated as staying strong through the end of 2018. The office vacancy rate in such cities as Sapporo, Sendai and Fukuoka continued to be low until December 2018, and the rate in Tokyo has been below 2% since November for the first time in 27 years after 1991, indicating that the tightening in supply and demand is growing stronger for the first time since the bubble economy era.

Particularly in the regional areas<sup>6</sup> where population is on the decline, the increase in foreign tourists seems to have caused land prices to rise. In fact, if we look at the share of total foreign hotel guests in regional areas, the share is gradually climbing year by year (**Chart 4**), suggesting that the rising number of foreign tourists is playing a major role in stimulating the regional economies.

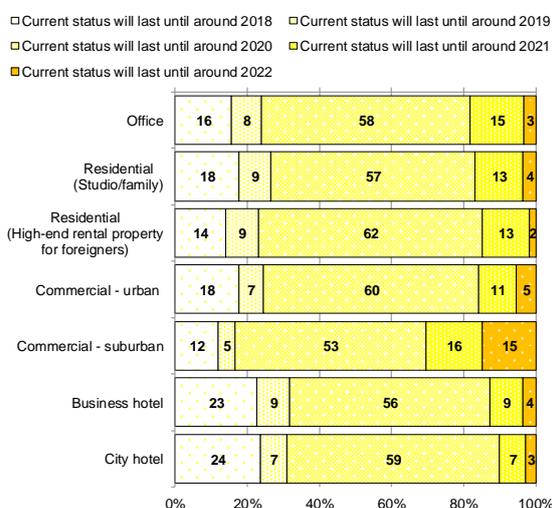
In this report, we discuss to what extent the increasing number of foreign tourists in regional areas is affecting commercial and residential land prices in these areas.

**Chart 1: Recognition of the current real estate market cycle**



Note: Data as of April and October of each year for the Marunouchi and Otemachi areas.  
 Source: Made by MHRI based upon the Japan Real Estate Institute, *Japanese Real Estate Investor Survey*.

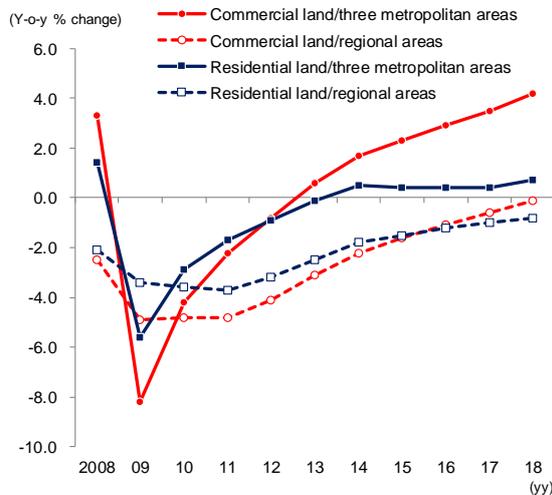
**Chart 2: Market outlook of different asset classes**



Note: Data as of October 2018.  
 Source: Made by MHRI based upon the Japan Real Estate Institute, *Japanese Real Estate Investor Survey*.

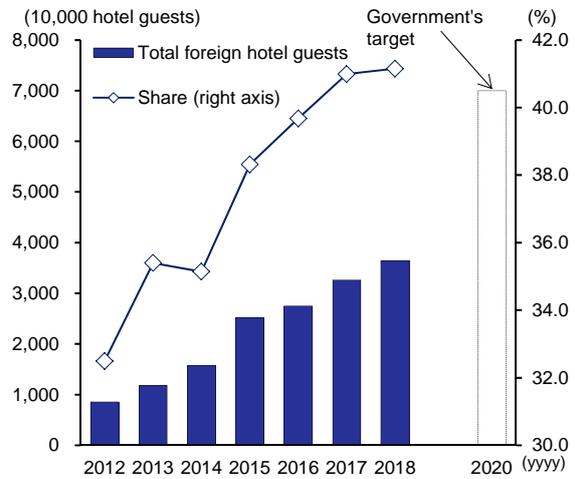
<sup>6</sup> The three metropolitan areas in the Prefectural Land Price Survey are the Tokyo area (municipality district including the existing urban areas and suburban development areas defined in the National Capital Region Development Act), the Osaka area (municipality district including the existing urban areas and suburban development areas defined in the Kinki Region Development Act), and the Nagoya area (municipality district including the existing urban areas defined in the Chubu Region Development Act). Regional areas refer to regions other than these areas. Chart 4 depicts the aggregate data of prefectures other than Tokyo, Chiba, Kanagawa, Saitama, Aichi, Osaka, Kyoto and Hyogo prefectures.

**Chart 3: Land prices**



Note: Data as of July 1, 2018.  
 Source: Made by MHRI based upon the Ministry of Land, Infrastructure, Transport and Tourism, *Prefectural Land Price Survey*.

**Chart 4: Total foreign hotel guests in regional areas**



Note: The 2018 data is extended using the data from January to October 2018.  
 Source: Made by MHRI based upon the Japan Tourism Agency, *Overnight Travel Statistics Survey*.

## 2. A text analysis suggests that rising numbers of foreign tourists may contribute to shoring up land prices

To analyze the relationship between foreign tourists and land prices, we used the “Land Value LOOK Report”<sup>7</sup> compiled by the Ministry of Land, Infrastructure and Transport and Tourism and conducted what is called a text analysis.<sup>8</sup> **Chart 5** depicts time series data on the appearance rate of phrases that contain words related to “inbound and tourism.”<sup>9</sup> The chart reveals that the appearance rate surged in around 2015 when an explosive shopping boom occurred, but declined in 2016 and rose again in 2018.<sup>10</sup> The movement of the appearance rate is similar to the movement in the number of total foreign hotel guests. Looking at the movement of total foreign hotel guests in Chart 5, the number jumped in 2015 but started falling toward 2016 before moving up again. As far as we can see from the movement of the two data, the trend of foreign tourists seems to affect land values in the real estate market with a certain time lag.

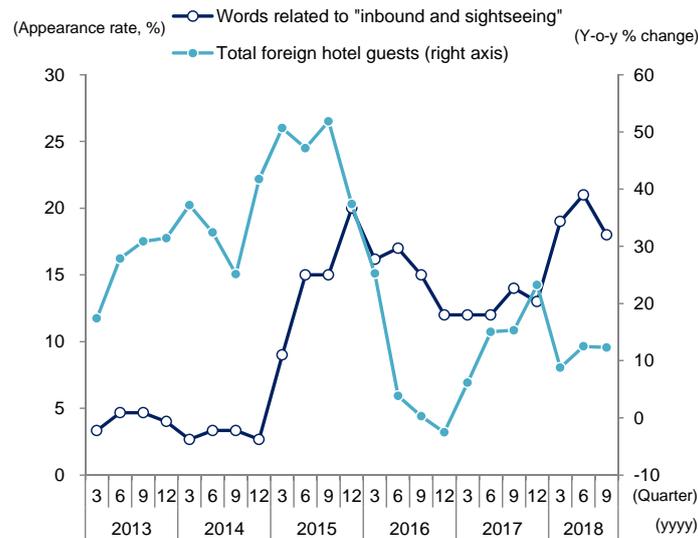
<sup>7</sup> The report describes the preceding trend of land value by grasping the land prices of intensively used districts on a quarterly basis because they reveal the preceding trend of land value in major cities.

<sup>8</sup> In this report, we used KH Coder to conduct the analysis.

<sup>9</sup> We extracted such words as “foreign tourist,” “inbound,” “foreigner visiting Japan,” “foreigner” and “sightseeing” as “inbound.”

<sup>10</sup> We made a graph using the appearance rate of phrases that contain the judgement that the transaction value trend of real estate properties (land or land portion of multi properties containing land/building) is “going up/increasing,” but the resultant shape was similar to Chart 5.

**Chart 5: Number of comments related to inbound**



Source: Made by MHRI based upon the Ministry of Land, Infrastructure, Transport and Tourism, *Trend Report of the Value of Intensively Used Land in Major Cities – Land Value LOOK Report* and the Japan Tourism Agency, *Overnight Travel Statistics Survey*.

Next, we confirmed through what routes foreign tourists are actually affecting land prices. Here we employed a method called the co-occurrence network<sup>11</sup> that visualizes the linkage of words related to “foreign tourists” (**Chart 6**). The chart shows that “foreign tourists” has a strong connection with such words as “increase, continue,” and that phrases with such words also have in many cases words like “hotels, stores, commercial facilities, transactions.” Thus, we can conclude that the rise in foreign visitors has also increased the demand for hotels, stores, and commercial facilities, thereby causing land prices to climb.<sup>12</sup>

In addition, since the share of foreign tourists in regional areas is steadily increasing as mentioned earlier, we hold that it exerts a positive impact on land value not only in major cities but also in other areas. To confirm our hypothesis, we looked at comments written in the 2017 and 2018 Land Price Publication as well as in “Trend of Spots Where Land Value Rose Notably” in the Prefectural Land Price Survey (**Chart 7**). They reveal that the increase in foreign tourists is pushing up the land value in various areas.

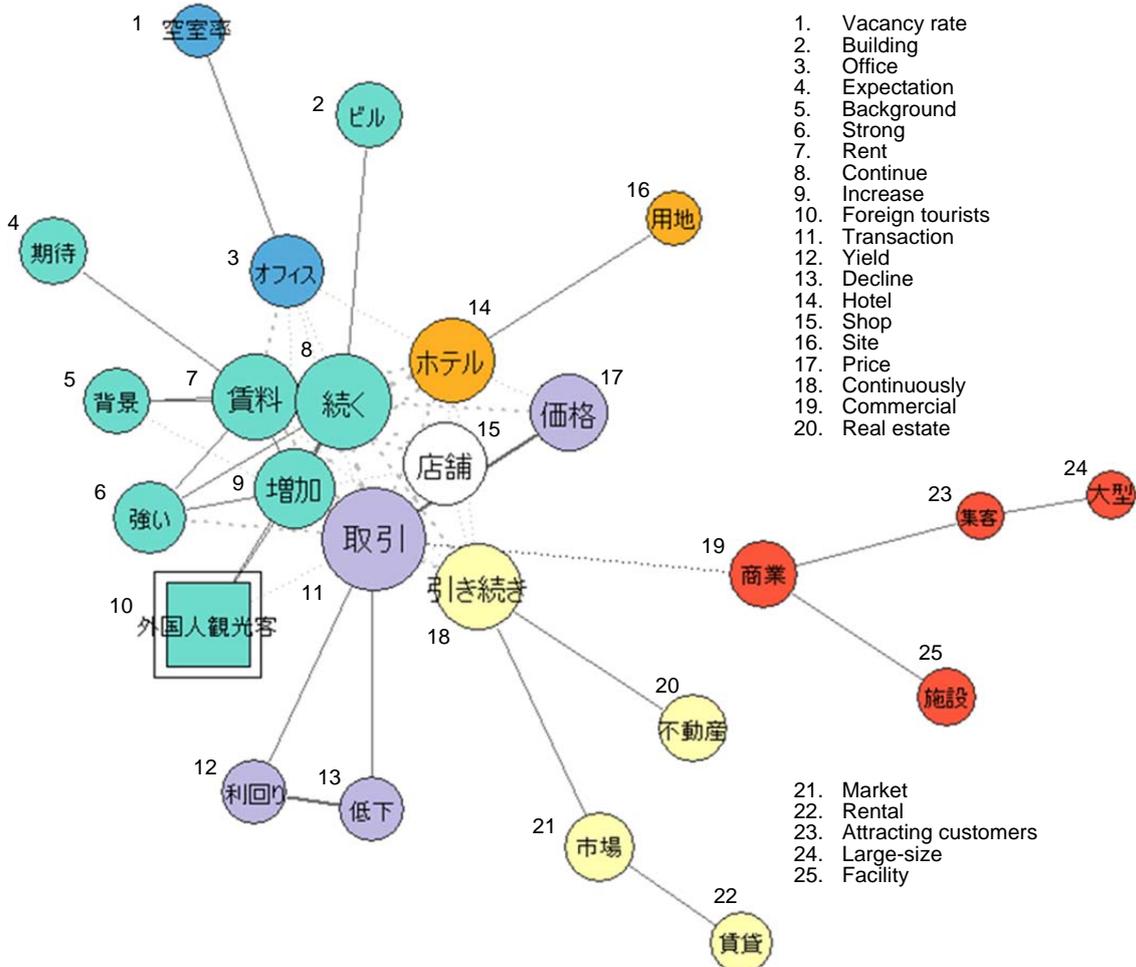
For example, in the case of commercial areas, we found such comments as “With an increase in domestic and foreign tourists, the profitability of restaurants, hotels, etc. is expected to improve. The demand for land for stores and hotels is strong overall.” (Naha City, Okinawa Prefecture, taken from the 2017 Land Price Publication), and “The

<sup>11</sup> A diagram that connects similar appearance patterns using the extracted words.

<sup>12</sup> According to the land value trend observed in Nakagyo Ward, Kyoto City (April 1 to July 1, 2018), we found such comment as “operation rate and unit room charge of hotels remain at a high level on the back of the increase in foreign tourists, and hotel developers’ appetite to acquire land for hotels continues to be strong. Hence the transaction prices remain high.”

number of domestic and foreign tourists is increasing, and there is strong appetite to open new stores, etc. in “Sanmachi Street,” which is a prominent sightseeing district with an old town atmosphere.” (Takayama City, Gifu Prefecture, taken from the 2018 Land Price Publication). These comments are consistent with the aforementioned results of the text analysis.

**Chart 6: Co-occurrence network related to inbound**



Note: The chart depicts the co-occurrence network of documents that contain words related to inbound and tourism. The coverage period is January to March 2013 through July to September 2018.

Source: Made by MHRI based upon the Ministry of Land, Infrastructure, Transport and Tourism, *Trend Report of the Value of Intensively Used Land in Major Cities – Land Value LOOK Report*.

**Chart 7: Trend of Spots Where Land Value Rose Notably**

| Classification   | Year | Published document            | Factor   | Standard spot/ address   | Comments, etc. of land value appraiser   |
|------------------|------|-------------------------------|--|--|--|
| Commercial land  | 2017 | Land Price Publication        | [Higashiyama Ward, Kyoto City] Demand for new store openings in the Shijo Street area close to prominent sightseeing spots.  | Gion-shijo Station 300m  | The overall demand for land in the central area of Kyoto City is buoyant due to an increase in domestic and foreign tourists. With the area close to prominent sightseeing spots, the appetite to open new stores is particularly strong, and land prices are rising.  |
|                  | 2017 | Land Price Publication        | [Naha City, Okinawa Prefecture] Demand for new store openings due to an increase in domestic and foreign tourists in a prominent sightseeing city.   | Wakasa bus stop 100m   | With an increase in domestic and foreign tourists, the profitability of restaurants, hotels, etc. is expected to improve. The demand for land for stores and hotels is strong overall, and land prices are rising.   |
|                  | 2017 | Prefectural Land Price Survey | [Kanazawa City, Ishikawa Prefecture] Demand for new store openings in an area surrounding a prominent sightseeing district.  | Kanazawa Station 2.1km   | The area surrounding Higashi Chayagai features a prominent sightseeing district where tourists enjoy an old landscape with beautiful wooden lattice windows. The appetite to open new stores has increased since the Hokuriku Shinkansen began operation in March 2015, and land prices are rising.  |
|                  | 2017 | Prefectural Land Price Survey | [Fujikawaguchiko Town, Yamanashi Prefecture] Increase in the demand for land for villas in resort areas. Demand for new store openings due to an increase in domestic and foreign tourists.  | Kawaguchiko Station 160m   | In the area surrounding Fujikawaguchiko, the demand for villas with an attractive view is rising on the back of an increase in domestic and foreign tourists after Mt. Fuji was registered as a World Heritage site. The demand for land for stores and hotels is also strong, and land prices are rising.   |
|                  | 2017 | Prefectural Land Price Survey | [Fushimi Ward, Kyoto City] Demand for new store openings in an area surrounding prominent sightseeing spots.   | Inari Station 50m  | The number of foreign tourists is increasing in the district around Fushimi Inari Taisha, and land prices are rising in this particular area because of the strong appetite to open new stores.  |
|                  | 2017 | Prefectural Land Price Survey | [Naha City, Okinawa Prefecture] Demand for new store openings due to an increase in domestic and foreign tourists in a prominent sightseeing city.   | Wakasa bus stop 100m   | In central Naha City, the demand for land is strong overall due to greater restaurant and hotel use on the back of an increase in domestic and foreign tourists.   |
|                  | 2018 | Land Price Publication        | [Kutchan Town, Hokkaido Prefecture] Demand for stores, rental housing, etc. in a ski resort area in Hokkaido.  | Kutchan Station 620m   | In the town of Kutchan, which is part of the Niseko tourist area, an increase in foreign tourists has pushed up the demand for stores and accommodations for resort facility employees, among others, in the urban area. Also, construction work on the Hokkaido Shinkansen is progressing, and the demand to build villas for foreigners has emerged. Land prices are rising significantly due to these multiple factors. |
|                  | 2018 | Land Price Publication        | [Takayama City, Gifu Prefecture] Demand for new store openings in the historical landscape district in Takayama.   | Takayama Station 750m  | In Takayama City, the number of domestic and foreign tourists is increasing, and there is strong appetite to open new stores, etc. in "Sanmachi Street," which is a prominent sightseeing district with an old town atmosphere. Therefore, land prices are rising.   |
|                  | 2018 | Land Price Publication        | [Nara City, Nara Prefecture] Demand for new store openings driven by an increase in visitors to the old town in Nara.  | Kintetsu-Nara Station 370m   | In Nara City, visitors to the shopping street in Mochidono district located in the old town of "Naramachi" are increasing due to the rising number of tourists. Also, the number of vacant stores has declined with the efforts to improve the shopping street, and land prices are rising.  |
|                  | 2018 | Land Price Publication        | [Miyako City and Ishigaki City, Okinawa Prefecture] Demand for new stores, etc. in the remote islands of Okinawa Prefecture.   | Kosetsushijomae 150m Area around Kitakyuujomae bus stop                | Even in the remote islands of Okinawa Prefecture, a rise in the number of tourists has driven up commercial land prices. The opening of the New Ishigaki Airport (started operation in 2013) continues to have an impact, particularly in the central district of Ishigaki City.   |
|                  | 2018 | Prefectural Land Price Survey | [Kutchan Town, Hokkaido Prefecture] Demand for stores, rental housing, etc. in a ski resort area in Hokkaido.  | Kutchan Station 350m   | In the town of Kutchan, which is part of the Niseko tourist area, an increase in foreign tourists has pushed up the demand for stores and accommodations for resort facility employees, among others, in the urban area. Also, construction work on the Hokkaido Shinkansen is progressing, and the demand to build villas for foreigners has emerged. Land prices are rising significantly due to these multiple factors. |
|                  | 2018 | Prefectural Land Price Survey | [Takayama City, Gifu Prefecture] Demand for new store openings in the historical landscape district in Takayama.   | Takayama Station 750m  | In Takayama City, the number of domestic and foreign tourists is increasing, and land prices are rising due to the strong appetite to open new stores, etc. in "Sanmachi Street," which is a prominent sightseeing district with an old town atmosphere.   |
|                  | 2018 | Prefectural Land Price Survey | [Higashiyama Ward, Kyoto City] Demand for new store openings in the representative downtown of Kyoto.  | Keihan Gion-shijo Station 300m   | In Gion district, Shijo Street is popular among tourists, and land prices are increasing thanks to the strong appetite to open new stores, etc., driven by an increase in foreign tourists.  |
| Residential land | 2017 | Land Price Publication        | [Karuzawa Town, Nagano Prefecture] Increase in the demand for land for villas in a resort area.  | Nakakaruzawa Station 5.0km   | With the brand strength of Karuzawa, the demand for villas is increasing overall mainly among wealthy people living in metropolitan areas, and land prices are rising.   |
|                  | 2017 | Prefectural Land Price Survey | [Kutchan Town, Hokkaido Prefecture] Increase in the demand for land for villas in a resort area.   | Hirafu Station 3.6km   | In the Niseko sightseeing area, the demand for land to build villas for foreigners is buoyant, and investment in stay-type accommodations such as condominiums is active, and land prices are rising.  |
|                  | 2017 | Prefectural Land Price Survey | [Fujikawaguchiko Town, Yamanashi Prefecture] Increase in the demand for land for villas in a resort area. Demand for new store openings due to an increase in domestic and foreign tourists. | Kawaguchiko Station 6.0km  | In the area surrounding Fujikawaguchiko, the demand for villas with an attractive view is rising on the back of an increase in domestic and foreign tourists after Mt. Fuji was registered as a World Heritage site. The demand for land for stores and hotels is also strong, and land prices are rising.   |
|                  | 2018 | Land Price Publication        | [Kutchan Town, Hokkaido Prefecture] Demand for stores, rental housing, etc. in a ski resort area in Hokkaido.  | Kutchan Station 850m   | In the town of Kutchan, which is part of the Niseko tourist area, an increase in foreign tourists has pushed up the demand for stores and accommodations for resort facility employees, among others, in the urban area. Also, construction work on the Hokkaido Shinkansen is progressing, and the demand to build villas for foreigners has emerged. Land prices are rising significantly due to these multiple factors. |
|                  | 2018 | Prefectural Land Price Survey | [Kutchan Town, Hokkaido Prefecture] Demand for stores, rental housing, etc. in a ski resort area in Hokkaido.  | Hirafu Station 3.6km<br>Kutchan Station 1.4km<br>Kutchan Station 1.9km | In the town of Kutchan, which is part of the Niseko tourist area, an increase in foreign tourists has pushed up the demand for stores and accommodations for resort facility employees, among others, in the urban area. Also, construction work on the Hokkaido Shinkansen is progressing, and the demand to build villas for foreigners has emerged. Land prices are rising significantly due to these multiple factors. |
|                  | 2018 | Prefectural Land Price Survey | [Ichinomiya Town, Chiba Prefecture] Demand for rental housing in the area surrounding an Olympic venue.  | Torami Station 1.9km   | In Ichinomiya Town, Tsurigasaki Beach is the surfing venue for the 2020 Tokyo Olympics. With the area around the beach becoming more popular among domestic surfers pushing up the demand for rental housing, land prices are rising.  |
|                  | 2018 | Prefectural Land Price Survey | [Naoshima Town, Kagawa Prefecture] Demand for residential housing driven by an increase in tourists, etc. on remote islands.   | Higashi-Myanoura bus stop 120m   | In Naoshima Town, which hosts the Setouchi Triennale, the demand for tourist accommodations and housing for local company employees is strong, and land prices are rising.   |

Source: Made by MHRI based upon the Ministry of Land, Infrastructure, Transport and Tourism, *Land Price Publication* and *Prefectural Land Price Survey*.

Moreover, we must not overlook the fact that the growing number of foreign tourists is also contributing to the increase in land value in residential areas. We can confirm that the rising number of foreign tourists is driving the growth in holiday home demand, as can be seen in the comment: “In the Niseko sightseeing area, the demand for land to build villas for foreigners is buoyant, and investment in stay-type accommodations such as condominiums is active” (Kutchan Town, Hokkaido, taken from the 2017 Prefectural Land Price Survey). Also, as can be seen in such comments as “In the town of Kutchan, which is part of the Niseko tourist area, an increase in foreign tourists has pushed up the demand for stores and accommodations for resort facility employees, among others, in the urban area” (Kutchan Town, Hokkaido, taken from the 2018 Land Price Publication), the demand for accommodations for employees of resort-related facilities is the driving force behind rising land values.

Foreign tourists are growing in number in regions centered on areas with highly developed transportation infrastructure, and this is particularly affecting the land prices of central cities in regional areas. If we read the comments more carefully, it is interesting that the land value of areas other than central cities is also on the rise thanks to the increase in foreign tourists (depending on the area). For example, **Chart 8** depicts the growth rate of land value for each spot in Kagawa Prefecture. The chart suggests that the land value of residential areas<sup>13</sup> is climbing not only in the central part of Takamatsu City but also in the island town of Naoshima. As seen in the comment in Chart 7, “In Naoshima Town, which hosts the Setouchi Triennale, the demand for tourist accommodations and housing for local company employees is strong” (Naoshima Town, Kagawa Prefecture, taken from the 2018 Prefectural Land Price Survey), inbound demand is also extending to regional areas, and we can see that land prices in a variety of areas are going up.

### **3. According to the quantitative analysis, inbound demand is significantly affecting the land value in regional areas**

In the previous section we confirmed that the increase in foreign tourists has stimulated the demand for land, causing the value of residential and commercial land to rise, based on the results of the text analysis in the Land Value LOOK Report and the Prefectural Land Price Survey.

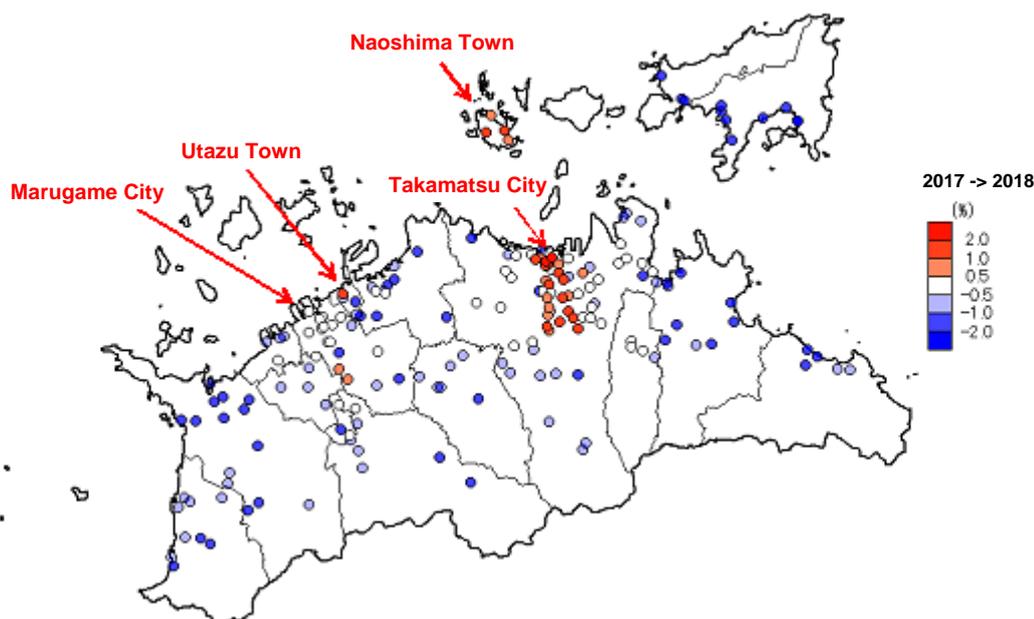
In this section, we conducted a quantitative analysis to see to what extent the increase in foreign tourists has actually pushed up land prices. More specifically, following the study by Uemura and Sato (2000), we set the land price based on the Prefectural Land

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<sup>13</sup> In this report, land whose purpose is indicated as “-” is included in residential land.

Price Survey<sup>14</sup> as the variable to be explained, and (1) land productivity (economic value generated by land),<sup>15</sup> (2) resident population,<sup>16</sup> (3) foreign hotel guests, and (4) Japanese hotel guests<sup>17</sup> as the explaining variables, and conducted a dynamic panel data analysis .

**Chart 8: Trend of land value of various areas in Kagawa Prefecture**



Note: Data as of July 1, 2018. The map is divided on a municipality basis.  
 Source: Made by MHRl based upon the Ministry of Land, Infrastructure, Transport and Tourism, *National Land Numerical Information Prefectural Land Price Research Data*, among others.

If we conduct a regression analysis using a model that incorporates these variables, the explaining variables for both commercial land and residential land have a positive correlation with a 1% level of significance<sup>18</sup>. This means the model statistically proves that in addition to the rise in land productivity and resident population, growth in foreign and Japanese hotel guests contributed to higher commercial and residential land values.

It should be noted that the elasticity coefficient of foreign tourists (we used total foreign hotel guests in the estimation) differs depending on whether the land is residential or commercial. If we focus on the effect of the increasing number of total foreign hotel guests on lifting land values, the coefficient of commercial land is greater

<sup>14</sup> By referring to Nakamura and Saita (2007), we calculated the weighted average land price using the previous year's price per area as a weight. We excluded the areas that were not subject to the land value investigation before 2007 from the weighted average calculation.

<sup>15</sup> Since nominal GDP by prefecture is only published up until 2015, we extended the data based on the trend after the implementation of Abenomics for 2016 through 2018.

<sup>16</sup> In the "Population, Demographics and Number of Households Based on the Basic Resident Register" compiled by the Ministry of Internal Affairs and Communications, the foreign population was first added to the 2013 data and we therefore used the Japanese population for the estimation in this report.

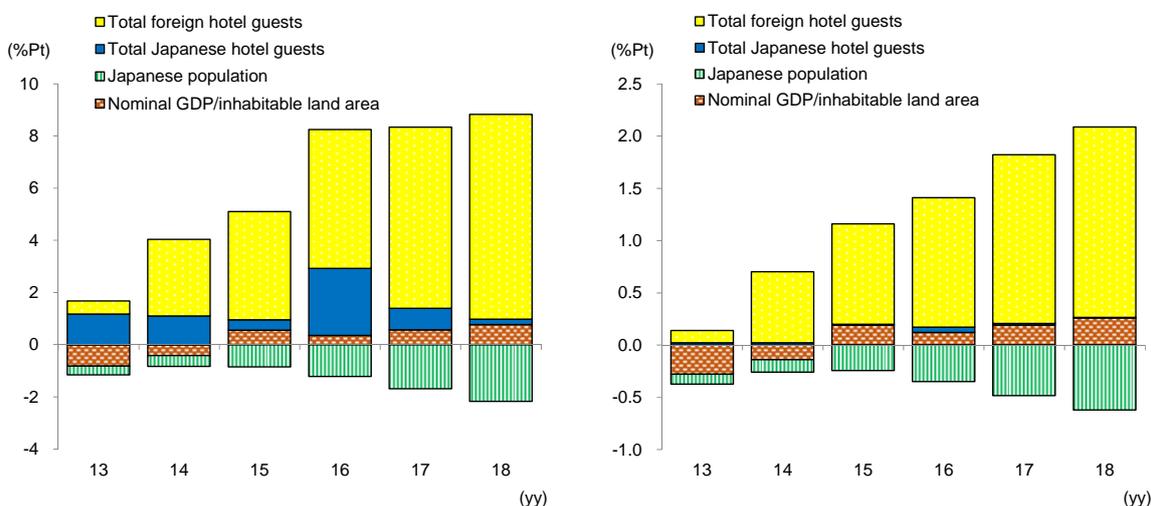
<sup>17</sup> The model formula incorporates 2011 as a dummy variable of the Great East Japan Earthquake.

<sup>18</sup> In the estimation process, we did not take any lag in land productivity and population, but took a one-year lag in the total foreign hotel guests and total Japanese hotel guests.

than that of residential land, suggesting that commercial land value increased to a greater extent than residential land. In sum, the growing number of total foreign hotel guests has a more positive effect on commercial land value than residential land.<sup>19</sup>

Then to what extent does an increase in foreign hotel guests contribute to pushing up land prices? Here we used the example of Kagawa Prefecture to derive the cumulative contribution to land value. **Chart 9** reveals that the push up effect of the growing number of foreign hotel guests was bigger than the other variables for both commercial and residential land. Thus, there is a possibility that land prices<sup>20</sup> in Kagawa Prefecture would have declined even further had there been no increase in foreign hotel guests.

**Chart 9: Cumulative contribution of land price in Kagawa Prefecture**  
**[ Commercial land ]** **[ Residential land ]**



Notes: 1. The above graph excludes the contribution of auto-regression lag and dummy variables.  
 2. The above graph is a breakdown of cumulative contribution starting from 2012.  
 Source: Made by MHRI based upon the Ministry of Land, Infrastructure, Transport and Tourism and the Ministry of Internal Affairs and Communications, among others.

#### 4. To diversify where foreign tourists visit, it is essential to arouse the demand of domestic travelers

As we have seen so far, growth in the number of foreign tourists can be one of the trump cards to stimulate the real estate market in regional areas. However, to promote more foreign tourists visiting regional areas, it is necessary to create sightseeing resources capable of attracting more intangible consumption centered on distinctive experiences in each region, in addition to enhancing the accommodation capacity,

<sup>19</sup> We multiplied the coefficient of total foreign hotel guests in commercial and residential land by the sample average value of total foreign hotel guests and divided the sample average value of commercial and residential land. The outcome was commercial land > residential land.

<sup>20</sup> If we look at the growth rate of land prices in Kagawa Prefecture, the rate of the year-on-year land price decline for both commercial and residential land is on a contracting trend.

developing intermodal passenger transportation, and so forth.

To promote the development of an environment that can attract more foreign tourists, the key factor is to what extent Japanese tourists can be enticed to regional areas because Japanese guests account for a majority of the total number of hotel guests (**Chart 10**). It is highly likely that regions with an increasing number of Japanese travelers will see the priority of the sightseeing industry rise significantly. We believe this will strengthen the incentive to develop infrastructure to attract more tourists. Hence, boosting the demand for domestic travel is expected to prompt the development of an environment to accept more tourists, including the improvement of public transportation and accommodation facilities, and attract larger numbers of foreign tourists as a result.

As we saw in Miyajima and Hirayoshi (2018a), Germany is one nation that has succeeded in enticing foreign tourists to its regional areas. In fact, Germany has also succeeded in boosting domestic travel. **Chart 11** depicts the mid-term trend of domestic hotel guests in Germany, Spain and France. The chart reveals that the number of domestic travelers in Germany has expanded steadily since 2000, even after the Lehman crisis. On the other hand, in Spain and France, the number of domestic travelers recovered after the Lehman shock, but only to the level seen prior to the Lehman incident, and the pace of recovery has not been as strong as in Germany. If we analyze Germany's trend by district, there is no great difference in the number of travelers increased by district.<sup>21</sup> So we hold that Germany's success in enticing a large number of foreign tourists is backed up by the increase in domestic travelers in various districts, prompting further development of the environment to accommodate more guests.

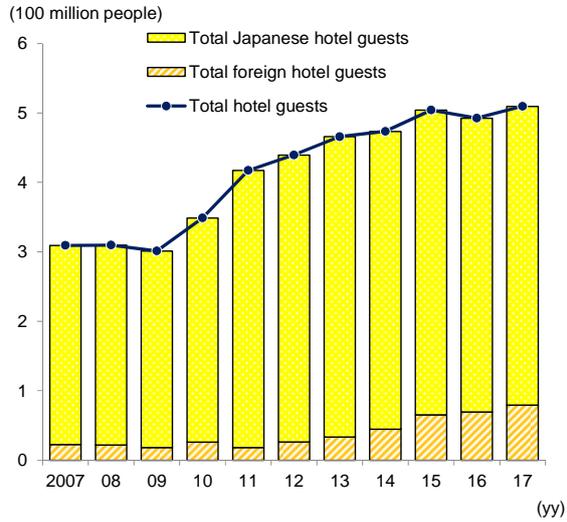
To stimulate domestic travel demand and attract more tourists to regional districts, it is essential not only to improve income levels but also to enable more people to take long-term paid holidays in a diversified way to even out the travel demand. Travel demand peaking out in a specific period will invite hikes in accommodation costs as well as confusion in public transportation systems, and as a consequence, domestic travelers may not increase as much as expected.

Regional districts are now experiencing a faster decline in population compared with metropolitan areas, and there is a risk that real estate markets outside of central city areas will face a serious challenge in the 2020s. To put an end to this critical situation, stronger efforts to attract even larger numbers of domestic and foreign tourists seem to be the only ray of hope. The wisdom of people living in regional areas is being put to task on how to take advantage of foreign and domestic tourist demand.

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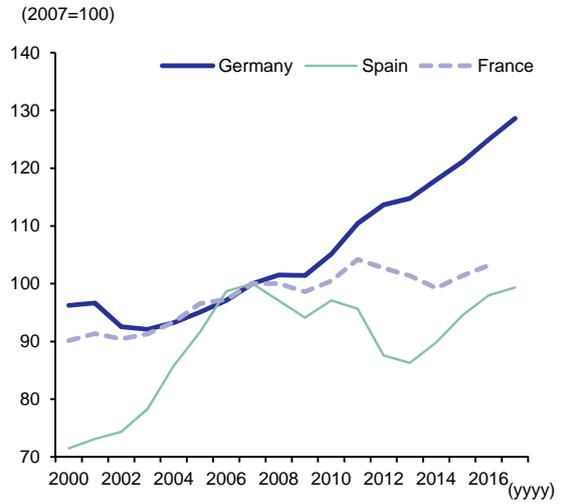
<sup>21</sup> If we compute the change rate from 2007 to 2017 in areas where calculation is possible, one area out of 38 areas was a negative figure, while all other areas were positive figures. The growth rate in the three areas (Mecklenburg-Vorpommern, Oberbayern and Schleswig-Holstein) with the greatest number of domestic hotel guests is around +25%.

**Chart 10: Total number of hotel guests**



Source: Made by MHRI based upon the Japan Tourism Agency, *Overnight Travel Statistics Survey*.

**Chart 11: Total number of domestic hotel guests**



Note: The data above represents the total number of guests who stayed at hotels and similar accommodation facilities.

Source: Made by MHRI based upon UNWTO.

Refer to the original Japanese report by clicking the URL below for the reference material and Addendum

<https://www.mizuho-ri.co.jp/publication/research/pdf/insight/jp190116.pdf>