

Owner-driven Urban Revitalization

Tokyo
Development
Learning
Center

The case of Marugamemachi Shopping Street in Takamatsu City

Japan Project Brief

Background and Objectives

Small and medium cities in Japan have experienced urban decline and suburban sprawl over the past few decades. Such cities are at risk of being hollowed-out and cannot sustain their local public services, and even small ones may be in danger of disappearing because of declining population and aging society. Confronting the risk of urban decline, cities have been calling for urban revitalization and ways to shrink suburban areas in a healthy way, with the national and local governments introducing a variety of programs, including provision of subsidies for urban revitalization activities. However, only a limited number of cities attained successful results so far.

The Marugamemachi Shopping Street in Takamatsu City is one of the innovative cases of urban revitalization uniquely initiated and led by land owners. Takamatsu City, the capital city of Kagawa prefecture, evolved as a critical exchange point for people and goods between Shikoku Island and mainland Japan. The district of Marugamemachi, in particular, has been playing a central role in the city's trade and commercial activities since it was established in the late 16th century. Being a part of the country's longest shopping street with a length of 2.7 km, the district in the central business area of the city had high residential density and a concentration of various urban facilities, such as prefectural and municipal offices, schools, hospitals, and commercial buildings. However, both the district and city started suffering from rapid urban decline in the 1990s following the construction of Seto Ohashi Bridge in 1988. By connecting the mainland and Shikoku Island, this gigantic bridge opened up the island's consumer market to large companies from the mainland. Local consumption largely shifted from the traditional retail streets to the large stores and suburban shopping malls established by major retailing companies. As a result, land values in the central district dropped significantly and the city government lost a large amount of income from property taxes. To stop this rapid urban decay, Marugamemachi's land owners initiated a revitalization project of the shopping street in a rather unconventional way.

Project Overview

The basic redevelopment plan of Marugamemachi was first proposed in 1990. The target street with a total length of 420m was divided into seven zones Zones A-G and then was redeveloped in a phase-by-phase manner. Each zone accommodates a variety of facilities and services with a unique concept, such as exclusive shopping; art and culture; beauty, health and fashion; local consumption promotion; and family and casual (Figure 1).

The main gate and the large public plaza with a symbolic dome were built around Zone A in 2006, followed by the successive redevelopment of Zone B and C in 2009, and G in 2012. By turning the street into a huge shopping mall with a variety of functions, the project makes the street more attractive for customers. In addition to commercial facilities, high-density housing and other social facilities, such as hospitals, public spaces, and offices

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were developed to attract people back into the city center. Despite land ownership being limited by fixed term land leaseholds, the multistory apartments developed along the street or in the upper stories of the commercial buildings on the street were sold out immediately. Major types of households in these apartments are retired elderly couples

and “dual income and no kids” couples, who are mainly looking for somewhere accessible and convenient to live in the central district. So as well as revitalizing commercial activities, the Marugamemachi redevelopment project intended to increase of population of the district.



Figure 1: Map of planned buildings along the Marugamemachi shopping street

Source: Takamatsu Marugamecho Shotengai Shinko Kumiai. Takamatsu Marugamemachi town development strategy (in Japanese). http://www.japanpa.jp/prize_epa/assets/15thususyu_keikaku_takamatsu.pdf

Separating Land Use Rights from Land Ownerships

Acquisition of land or land readjustment is often a challenge for redevelopment in general. In the case of Marugamemachi, land owners along the street decided to give up their family businesses or relocate establishments, and then they leased their land lots to a community development company which they established in 1998 to manage the redevelopment project. Under the common objective to re-attract residents and visitors and revitalize business in the old retail street, they agreed to separate

the land use rights from property rights. The community development company rented out the land lots for 60 years through the investment companies also developed by the land owners, while the owners relinquished the rights to use their land lots. Through this ownership arrangement, fragmented land lots with different owners were efficiently consolidated into a large parcel for redevelopment. Then, the company selectively invited new competitive tenants in consideration of a well-balanced mix of business types according to the basic concept of the revitalization plan to make the place more attractive for customers.

Financing the Redevelopment Project by Securitizing the Land Use Rights

Separation of land ownership and land use rights also helped to save the cost of redevelopment. The land owners established an investment company for each zone and invested the land use rights to the company. The investment company then consigns the management to the community development company with a fix-term contract (Figure 2). This lease scheme saved the cost of acquisition of land for redevelopment. For example, the total development cost of Zone A was JPY 6.9 billion, which was about a half of the cost generally required to build such property at that time. The 21 land owners also took a project risk personally by borrowing money from banks to directly invest JPY 260 million in total on the project. In turn, the land owners received the profits generated by operating new commercial facilities as dividend. Although the amount of the dividend changes depending on the sales of commercial facilities, the land owners have received a 8-12% dividend so far. Several government subsidy schemes were also utilized for the redevelopment project to reduce the amount of borrowing from banks, which resulted in a reduced financial burden for the land owners.

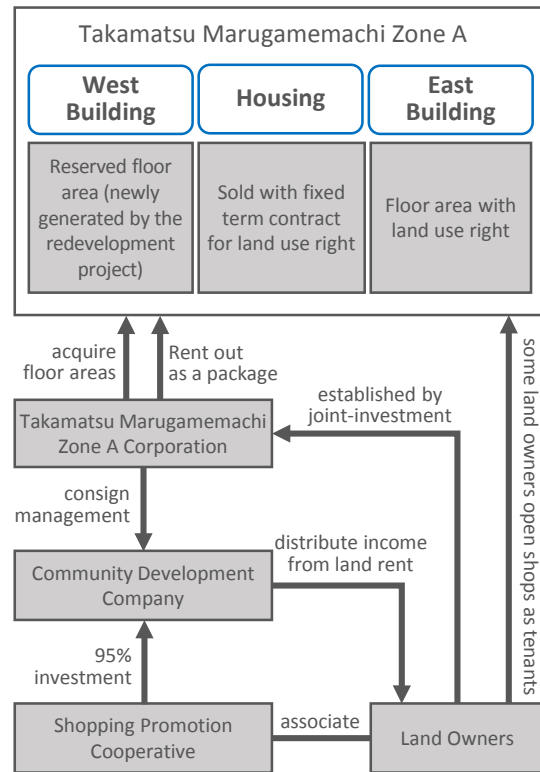


Figure 2: Development mechanism of Zone A

Source: Produced by author based on document from Japan foundation for regional vitalization (in Japanese). <https://www.furusato-zaidan.or.jp/machinaka/project/casestudies/kagawa01.html#1>

of Takamatsu (local government). This means that the involvement of local government is very limited in the management of the company.

Roles of the Community Development Company

The community development company specializes in managing a range of properties and services (e.g., commercial buildings, housing, tenants, car parking, and community bus operation). All staff are business professionals who have rich knowledge and experience in managing commercial buildings. This is in contrast to community development companies that in general often hire city officers or private executives to promote and coordinate redevelopment projects. Financially, 95% of the investment to the company comes from the private sector (93% from the association for shopping district promotion, 2% from the company invested by land owners) and the rest comes from the City

Project Impacts

Economic Impact:

Since the first redevelopment in Zone A was completed in 2006, the vacancy rate of tenant spaces in Marugamemachi has been much lower than those in other comparable districts (Figure 3). Through residents developed under the project, population in the district has increased and promotes business opportunities. The regeneration of Marugamemachi also increased the land value of the district, resulting in increased revenue for the government from property, income, and consumption taxes.

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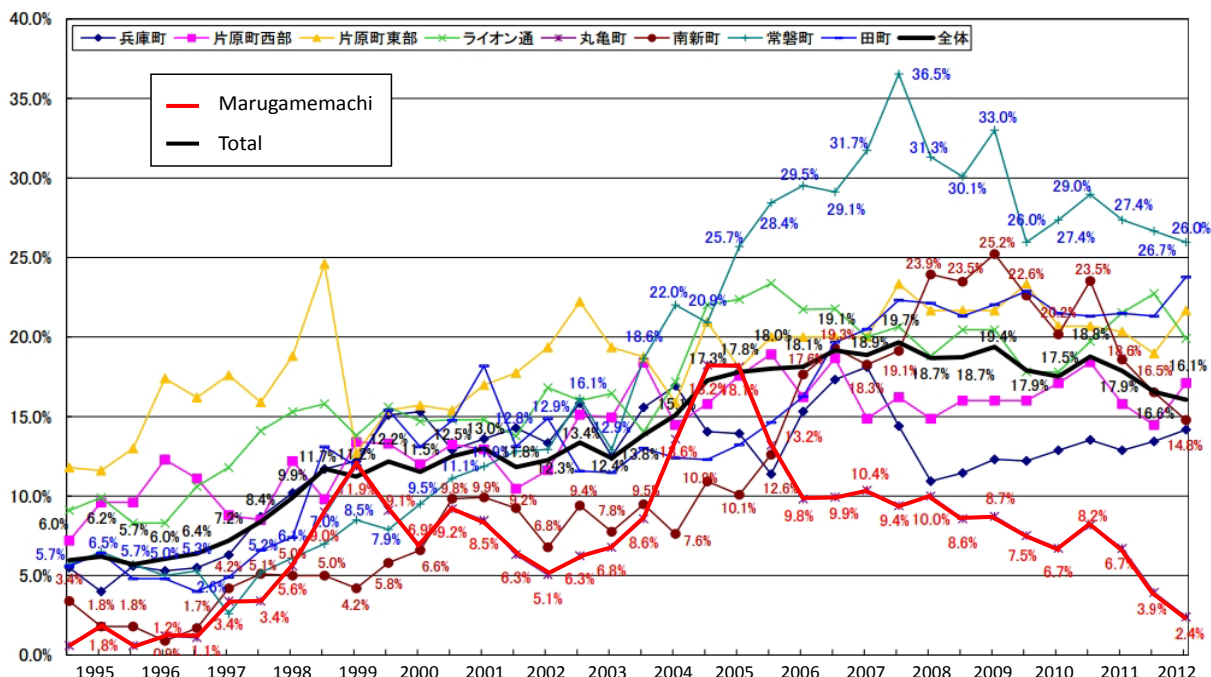


Figure 3: Change of vacancy ratio by shopping street (total floor area)

Source: City of Takamatsu. Result of store location

Social Impact:

In an aging society, there is an increased demand for urban housing units with convenient access to various private and public services within a walkable distance. By redeveloping the old retail street, Marugamemachi meets such unconventional needs for an active aging population. It also brings back young households to the central district by creating an attractive living environment.

Environmental Impact:

The redeveloped district produced human-scale built environments that encourage car-free lifestyles. For example, the main street was pedestrianized and covered with a glass ceiling, various commercial and public facilities were located within a walkable distance, and high-rise residences were developed without car parking spaces, all of which contribute to reducing private car usage and greenhouse gas emissions.

Lessons Learned

Many rural towns and land owners in old commercial districts are seeking innovative ways to revitalize local economies. However, it is not easy for individual land owners to build consensus among all the stakeholders in the neighborhood and it can be difficult to find funding sources for redevelopment projects. Key lessons from the redevelopment of Marugamemachi Shopping Street are summarized as below:

Strong Local Private Initiatives to Revitalize an Urban District:

Historically, retailers along old shopping streets are both individual land owners and local business operators. Although a large-scale redevelopment project has a great potential to generate huge benefits to all the stakeholders, these land owners are often less cooperative with each other for protecting their own property rights. In the case of Marugamemachi, this issue was solved by land owners' decision to lease their land use rights

for the redevelopment project while retaining their property rights, with the strong initiative of local land owners themselves. It is essential to strongly motivate all owners to redevelop by clarifying both potential project risks and investment returns and tightly unite them by sharing vision and goals of redevelopment. The strong will of local communities for redevelopment and the involvement of experts to support the redevelopment are also key factors for success.

Governmental Support with Less Intervention:

Government financial support is also important to implement capital-intensive redevelopment projects to reduce the financial burden and lower the risks for the group of small land owners leading the projects. For the government sector, increased tax revenue is expected from the success of the redevelopment project. However, governments should not always be involved in the decision-making process of private-based projects. Less government involvement encourages land owners to take initiatives, make immediate decisions, and expedite revitalization at their own expense.

Future challenges

In an aging and shrinking society, large-scale redevelopment is a tough challenge with a high risk of failure. With a decreasing population, old shopping districts cannot re-attract the same number of people that they used to in the past period of urban growth. Under such circumstances, redevelopment projects often

become unprofitable and hardly increase land values. Elderly land owners are not willing to participate in progressive investment projects, but rather prefer to maintain their own small businesses. In such a case, strong incentives for the redevelopment and mechanisms to promote trusts in the project are essential to drive individual owners to take certain risks and make every effort so that the project is a success. Furthermore, as redevelopment projects require long-term involvement across generations, the merits of redevelopment should be valuable to successive land owners who would take over the projects in the future.

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