

# Tokyo may have found the solution to soaring housing costs

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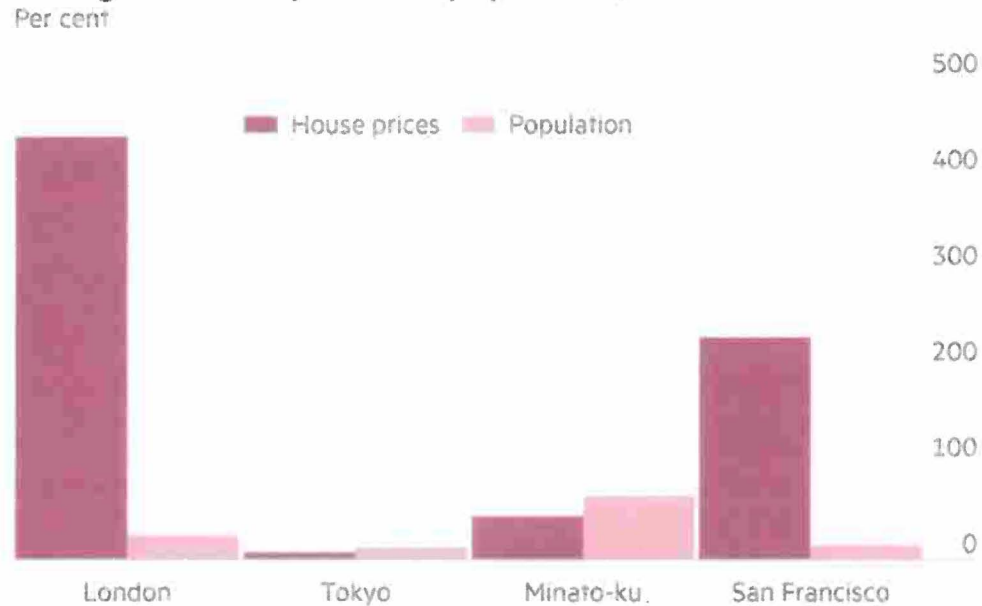
San Francisco and other large American cities are facing a massive housing affordability problem, with rents spiraling beyond the reach of ordinary people. A fascinating article from the Financial Times argues that Japan may have found a solution to the problem.

Most big American cities and their surrounding suburbs have housing regulations that strictly limit the number of new housing units that can be built. As a result, the demand for housing in the most economically dynamic cities has dramatically outpaced the supply.

For example, Trisha Motter, president of the Santa Clara Board of Realtors, told Curbed that the Bay Area added 64,000 new jobs in 2015, but it added fewer than 5,000 new homes. The result: Rents are soaring across the region.

But the experience of Tokyo shows that it doesn't have to be this way. Like many other major cities around the world, Tokyo is experiencing a population boom (even as Japan's overall population has stagnated). Unlike other cities, Tokyo has managed to keep its housing costs under control:

Change in house price and population, 1995-2015



Sources: Office for National Statistics; Census Bureau; Tokyo Kanitei; Ministry of Land, Infrastructure & Transport

It's important to note that these figures are not adjusted for inflation. The United States and United Kingdom had higher inflation rates during this period than Japan (which has had barely any inflation at all), which exaggerates the effect. But even after you take inflation into account, home prices in San Francisco have more than doubled, while prices in Tokyo have barely changed.

Even more striking is the example of Minato-ku, a trendy section of Tokyo that grew from 145,000 to 241,000 residents over two decades. Housing prices in Minato-ku did rise as a result of this soaring demand, but the increases were far more modest than what you'll find in San Francisco.

The reason, argues Financial Times writer Robin Harding, is that Tokyo does a better job of allowing housing supply to keep up with housing demand. In 2014, Tokyo issued permits for 142,417 new housing units. In contrast, the entire state of California — which has three times the population of Tokyo — issued permits for only 83,657 new housing units. Little wonder that demand for housing has outstripped supply in the Bay Area.

In the United States, local housing markets are plagued by grassroots "Not In My Back Yard" (NIMBY) activists who organize to stop efforts to build town homes and apartment buildings in their local neighborhoods. Because every construction project is located near *somebody*, the result tends to be that little housing gets built anywhere.

In contrast, Harding writes, Japan sets housing regulations at the national level. As a result, if a Tokyo landowner wants to knock down his single-family home and replace it with a six-unit condo building, there's little that his neighbors can do to stop it. That can be annoying to individual homeowners, of course. But it also has the huge upside of keeping housing costs under control.

We're just starting to see similar proposals be made here in the United States. Earlier this year, a Massachusetts legislator proposed a bill that would limit the authority of municipalities in the state to restrict housing development. The Japanese experience suggests that if this approach were to catch on, it would have big benefits for people in Boston, San Francisco, New York, and other big cities who are struggling with rising housing costs.