

THE OMIYA SONIC CITY:
A CASE STUDY OF THE PUBLIC-PRIVATE PARTNERSHIP IN JAPAN

by

TAKASHI FUKUMURA

M.E., Urban Engineering, University of Tokyo, 1988

B.E., Urban Engineering, University of Tokyo, 1986

Submitted to the Department of Urban Studies and Planning and the Center for Real Estate
in Partial Fulfillment of the Requirements for the Degrees of

Master in City Planning

and

Master of Science in Real Estate Development

at the

Massachusetts Institute of Technology

February 1994

© Takashi Fukumura, 1994. All rights reserved

The author hereby grants to MIT permission to reproduce and distribute publicly
copies of this thesis document in whole or in part.

Signature of Author

Department of Urban Studies and Planning
Center for Real Estate

Certified by

Bernard J. Frieden, Professor of City Planning, Department of Urban Studies and Planning
Thesis Advisor

Accepted by

Ralph Gakenheimer, Chairman, Committee of Master's Program
Department of Urban Studies and Planning

Accepted by

William C. Wheaton, Chairman, Interdisciplinary Program in Real Estate Development

MASSACHUSETTS INSTITUTE
OF TECHNOLOGY

MAR 16 1994

LIBRARIES

Datch



Room 14-0551
77 Massachusetts Avenue
Cambridge, MA 02139
Ph: 617.253.2800
Email: docs@mit.edu
<http://libraries.mit.edu/docs>

DISCLAIMER OF QUALITY

Due to the condition of the original material, there are unavoidable flaws in this reproduction. We have made every effort possible to provide you with the best copy available. If you are dissatisfied with this product and find it unusable, please contact Document Services as soon as possible.

Thank you.

Both the Library and Archival versions of this thesis contain B&W photographic reproductions only. This is the best available copy.

The Omiya Sonic City:

A Case Study of the Public-Private Partnership in Japan

THE OMIYA SONIC CITY:
A CASE STUDY OF THE PUBLIC-PRIVATE PARTNERSHIP IN JAPAN

by

Takashi Fukumura

Submitted to the Department of Urban Studies and Planning and the Center for Real Estate
in partial fulfillment of the requirements for the Degrees of
Master in City Planning and Master of Science in Real Estate Development
at the Massachusetts Institute of Technology

ABSTRACT

About a decade has passed since the public-private partnership became popular in the US. Before such a partnership became popular, the public and private sectors confronted one another rather than cooperated. In conducting the same downtown development, the two sectors mixed little; the public sector began preparing the site without consulting the private sector, and then the private sector constructed a building on the site without discussing how to use it with the public sector. However, this practice has been changing as the two sectors realized that the conventional way of development would not work well anymore. Recently, both sectors have often been involved in all stages of projects, negotiating with one another throughout the development process. This cooperation of the two sectors is usually referred to as the public-private partnership.

A recent phenomenon, the public-private partnership became popular not only in the US but also in other major countries. Japan is no exception, and the public-private partnership has attracted very wide attention. Interestingly, however, what is known as the public-private partnership in Japan seems to be slightly different from that in the US. The main theme of this thesis is to clarify how the partnerships in the US and in Japan are different, and why such differences have occurred.

This thesis first examines the economical and political factors that helped the public-private partnership get attention in Japan. Then, how these factors worked in forming the Japanese-style partnership will be discussed. The middle of the thesis documents a case study that was conducted to better understand the uniqueness of the public-private partnership as seen in Japan. Finally, after clarifying problems of the Japanese partnership, some suggestions will be made to seek a better relationship among parties that will be involved in future projects.

Several conclusions are drawn from the study. One is that a project competition, a method employed in the studied case, contains problems in order to be solved to maintain a good partnership between the two sectors. Notably, the competition jury played an important role to fix such problems in the studied case. The second relates to how to maintain the public purpose for the public sector in conducting a project with the private sector. The importance of inviting citizen groups to development projects is also pointed out in the conclusion.

Thesis Supervisor: Bernard J. Frieden
Title: Professor of City Planning, Department of Urban Studies and Planning

Table of Contents

Chapter I	Conceptual Differences between the Public-Private Partnership in Japan and in the US
1.	Introduction
2.	Concepts of the Public-Private Partnership in the US
3.	" <i>Minkatsu</i> ," Its Concept and Background
4.	Brief Comparison of Public-Private Partnerships, as Practiced in Japan and in the US
Chapter II	Several Tips to Better Understand the Omiya Sonic City Project
1.	Tips to be Explained
2.	Overview of the Sonic City
3.	History of Omiya City
4.	The West Gate Area and the Omiya City Government's Plan of the Area
5.	<i>Minkatsu</i> Methods Applied to Urban Development
Chapter III	A Case Study: The Omiya Sonic City
1.	A Request for Replacing a Chamber-of-Commerce Building
2.	Becoming the Prefecture's Leading Project
3.	Considering Ways to Invite Private Companies to the Project
4.	Shaping the Idea of Project Competition
5.	Executing the Project Competition
6.	Designation of the Developer
7.	Site Preparation and Other Preparatory Works
8.	Construction-Related Works
9.	Building Management
10.	Tenant Recruitment
Chapter IV	Impacts of the Omiya Sonic City
1.	Impacts of Urban Development
2.	How the Sonic City is Utilized
3.	Economic Impacts
4.	Social Impacts
5.	Political Impacts
Chapter V	Conclusion
1.	Lessons from the Sonic City
2.	Distinctive Features of the Sonic City Project
3.	Roles the Prefectural Government Assumed in the Sonic City Project
4.	Factors that Facilitated a Partnership between the Two Sectors
5.	Several Issues to be Addressed in Order to Improve Public-Private Partnerships in Japan

Chapter I

Conceptual Differences between the Public-Private

Partnership in Japan and in the US

1. Introduction

To study the public-private partnership as found in Japan, one needs to know that the basic concept in Japan is slightly different from that understood in the US. In Japan, such a partnership is not an inevitable result but a way for the public sector to utilize private funds and expertise. To understand this, I would like to introduce what a public-private partnership means in the US. Then, the movement that motivated the public sector in Japan to form a partnership with the private sector will be explained. Finally, the Japanese concept will be compared to that of the US to further understand the essential difference between the two.

2. Concepts of the Public-Private Partnership in the US

About ten years have passed since the term "public-private partnership" became popular in the US. Despite its recent introduction, the term is now used both nationally and internationally. It is not a term with a single definition, however, but has been used to refer broadly to a wide variety of interactions between public and private organizations. To study the Japanese public-private partnership, I would like first to establish a broad understanding of what public-private partnership means in the US.

Until the present time, many people have expressed their own interpretations of public-private "partnership." However, no definition has been definitive, and the range of meaning for the term seems to be unlimited. For example, the Committee for Economic Development, US committee for governmental studies, stated in 1982, "public-private partnership is cooperation among individuals and organizations in the public and private sectors for mutual benefit."¹ In 1989, Scott Fosler, senior fellow at the Johns

Hopkins University, interpreted that statement as, "relationship among government, business, and/or non-profit organizations, ranging from informal understandings ... to formal joint agreements ..., that provide mutual benefits both to the public and private participants."² Here, and in any other cases, the term "public-private partnership" refers to a broad concept, and it includes any style of interaction between the two sectors.

Efforts have been made, however, to break down the concept into categories. Bernard Frieden and Lynne Sagalyn, professors at MIT, classified these partnerships in two categories according to the level of the public sector's commitment.³ The first category includes partnerships at the decision-sharing level. This category was frequently seen in the early years, i.e., in the early 1980's, and includes any partnership where the public sector makes crucial decisions together with private companies. For this purpose, the public sector usually invites private developers, for instance, to become involved in the early stage of project planning, and continues to negotiate with them as circumstances change. The public sector, however, does not share the risks that may accompany a project. It remains merely a regulator rather than a developer under this category. The second category includes partnerships at the joint-venture level. Under this category, the public sector works like a developer, sharing both future returns and project risks with private developers. Therefore, it may suffer from financial problems as well as political ones in case of any failure during the project. Also, the public sector often plays an important role not only in design and finance but also in ownership and management, a significant difference when compared to the first category.

Scott Fosler categorized partnerships differently, basing his divisions on the form of their origins: from (1) government initiatives, (2) private sector initiatives, and (3) joint

government-private sector activities.⁴ In his first category, government initiatives, the government usually sets the rules that control private real estate development, and private developers sometimes influence those rules to make them fit ongoing business circumstances. In the second category, private sector initiatives, private developers choose to undertake development that has an explicit public purpose as one of its goals. Government may not be directly involved in development under this second category. In the third category, joint government-private sector activities, the government works together with private developers on a specific goal common to both. The arrangements between them vary case by case, from informal agreements to formally established joint organizations.

Having reviewed these definitions, I would like to define public-private partnership as a collaboration between government and private entities through which resources, expertise, and personnel are pooled, and effort, risk, and benefit are shared. This definition may be rather narrow compared to a generally accepted one, in that it requires government to become something more than a regulator. However, I think that both sectors need to assume an equal level of risk and responsibility if they want to maintain a good relationship, even after a project is done. Keeping this view in mind, I would like to describe the public-private partnership as known in Japan and explain how it has evolved.

3. "Minkatsu," Its Concept and Background

The evolution of public-private partnerships in Japan has been greatly influenced by "Minkatsu," a unique idea introduced to public organizations in the early 1980's.

Minkatsu is an abbreviation of the Japanese phrase "*Minkan Katsuryoku*." The first word, *Minkan*, means "private" or "civil," and the second word, *Katsuryoku*, means "vitality" or "energy." The word *Minkatsu*, therefore, means something like "the vitality of private companies." This translation is, however, rather superficial. The actual meaning of *Minkatsu* is more than what the term literally means. It refers to the situation where government utilizes private companies' vitality in the form of funds, business skills, and experienced personnel, in order to promote public enterprises.

Minkatsu was first contrived by the Second Ad Hoc Administrative Review Commission, a supervisory commission to Japanese Government, in its third report on administrative reform in 1982. This new concept was intended to be a way to deal with problems that public organizations were experiencing. The de facto bankruptcy of the Japanese National Railways clarified the necessity of establishing a more efficient administrative system to revive public enterprises that had become inflexible and seemed not to be functioning properly. One way to reform would be to utilize private companies' expertise.

Several economic and social conditions, however, made *Minkatsu* an attractive option in the field of urban development, too. First, public facilities such as roads, parks, civic halls, and convention centers, were poor in Japan, compared with those in other industrialized countries, and the government, at both national and local levels, was eager to improve them. Table 1-1 explains how public facilities were poorly equipped in Japan. For example, the extent of highways was 8.3 kilometers per 1,000 cars in 1985, less than a quarter of that in the US in 1981. Parks in Tokyo were 2.0 square meters per capita in 1981, surprisingly less than one twenty-second of those in Washington D.C. in 1976.⁵

As the rate of economic growth had slowed down and the rate of elderly people had risen, it was expected that the government would be short of funds for such public facilities, since it would be required to save them for social welfare. The coming decade was therefore thought to be the last chance to equip these facilities sufficiently.

Table 1-1: International Comparison of Urban Infrastructure

	Japan	US	West Germany	UK
Highways (km / 1,000 cars)	8.3 (1985)	37.5 (1981)	30.6 (1981)	16.3 (1981)
Parks (m ² / capita)	2.0 (1981) (Tokyo)	45.7 (1976) (Wash. D.C.)	51.0 (1980) (Bonn)	33.0 (1981) (London)
Sewers (% of pop. covered)	34 (1985)	72 (1977)	89 (1979)	98 (1981)

Source: Construction Ministry of Japan

Second, the financial strength of the government at both national and local levels was weakened, preventing it from conducting urban development by itself. It was suffering from both annual deficits and a high burden of accumulated debts. In the early 1970's, tax revenues were depressed by economic stagnation, and the government failed to curb expenditure to make both ends meet. Typically, the national government issued bonds to cover over 30% of total expenditure in the late 1970's. Although the percentage of the debt has declined from its peak of 34.7% in 1979, it has remained at a high level thereafter.⁶ Compared to the debts of other countries, the fiscal deficit of Japan was much more serious, as shown in Table 1-2. From 1975 to 1980, Japan increased its fiscal deficit by 10%, whereas the US and West Germany reduced theirs by the same amount in the same period. Due to these large annual deficits, Japan had accumulated national

debts of about 70,510 billion yen (US\$ 311 billion)^{Footnote 1} by 1980. This debt was equal to 28.8% of the nominal Gross National Product.⁷ As a result, government expenditure was limited, and allocation of funds lost flexibility, which meant that the government could not adequately invest in public works even though they wanted to improve urban facilities.

Table 1-2: International Comparison of Fiscal Deficit

Year	1970	1975	1980
Japan (Billion Yen)	80	4,670	13,530
% of Fiscal Size	0.9%	22.4%	31.2%
% of Nominal GNP	0.1%	3.0%	5.7%
US (Billion Dollars)	11	85	68
% of Fiscal Size	5.6%	23.3%	11.3%
% of Nominal GNP	1.1%	5.5%	2.6%
West Germany (Billion Marks)	+10	35	28
% of Fiscal Size	+1.2%	22.0%	12.8%
% of Nominal GNP	+0.2%	3.4%	1.8%

Source: NLI Research Institute

Third, the private sector in Japan had surplus funds at that time. The monetary relaxation in the 1980's provided the opportunity for private companies to raise huge amounts of funds at low cost, and the total amount of funds actually raised was more than the opportunities for real investment, i.e., plant/equipment investment and inventory investment. A large part of the surplus funds was reinvested in stocks, thus increasing the financial assets of the private sector to as high as 434 trillion yen (US\$ 3.03 trillion)

¹ The exchange rate used is 226.74 yen = US\$ 1.00, the average rate of 1980.

Footnote ² by 1989. Since the private sector had more funds in hand than the amount necessary for real investment, it looked for extra investment opportunities, one of which was urban development. *Minkatsu* was, so to say, an attempt by the public sector to utilize such surplus funds from the private sector.

Fourth, Japan was experiencing international economic friction due to its huge trade surplus, and was being requested to stimulate its domestic market in order to balance exports and imports. Japan's real economic growth rate averaged 4.4% yearly between 1975 and 1982, which was much higher than the growth rate of other countries. Actually, the US grew at 2.2% and West Germany at 1.8% in the same period. Japan's relatively rapid growth, based in part on exports, was somehow undesirable from the diplomatic point of view because it might aggravate the economic friction between Japan and countries suffering from large trade deficits. Japan's annual trade surplus in 1985 was 10,871 billion yen (US\$ 45.533 billion),^{Footnote 3} and 85% of that surplus was from trade with the US. Since the Japanese economy was growing faster than that of other developed countries, the US demanded that Japan stimulate its domestic economy to increase imports. Because of their high multiplying effects, construction-related projects, such as urban development, got special attention and were highly promoted, with government taking the initiative.

Minkatsu was originally a way to solve the administrative problems that public organizations faced. During the Nakasone administration (1982-1987), however, it was applied to various fields, one of which was urban development, and brought about a

² The exchange rate used is 143.45 yen = US\$ 1.00, the rate prevailing at the end of 1989.

³ The exchange rate used is 238.54 yen = US\$ 1.00, the average rate of 1985.

remarkable phenomenon to Japan's real estate industry. That was the Japanese public-private partnership.

4. Brief Comparison of Public-Private Partnerships, as Practiced in Japan and in the US

There is a large difference one needs to remember when comparing Japanese public-private partnerships with those in the US. This difference is deeply rooted in the background in which the concept has evolved. Public-private partnerships appeared with the commencement of *Minkatsu* in Japan, whereas in the US they appeared with the discontinuance of the urban renewal program. The public sector in Japan, therefore, has considered partnership to be basically a way to utilize the private sector's funds, whereas in the US it has considered partnership a way to save blighted areas after losing urban renewal funds. Before discussing the case study, I would like to show why such a difference has occurred, explaining several urban agendas in each country.

Two important issues to be addressed are the land-price system and the population movement. Traditionally, land price depends more on use in the US, whereas in Japan it depends more on location, i.e., proximity to downtown or a railway station. In appraising a parcel of land with a building on it, land and building are usually appraised together in the US,⁸ while they are usually appraised separately in Japan. Hence, in Japan land price is determined regardless of current use; this practice implies that a blighted area hardly exists downtown because downtown space is almost always considered precious and convenient. In the US, on the other hand, proximity to downtown is not necessarily considered an advantage. This was especially true in the 1960's - 1970's.

The downtown population had declined in both Japan and the US for different

reasons. In the US, the middle to high income class preferred to live in a suburb or a small town, and "cities were turning into an ungovernable, out of control, unloved, unlivable, and frightening places."⁹ Downtown development therefore had been risky business, and many large parcels were left unused, like St. Paul's Superhole and St. Louis's Hiroshima Flats. Neither sector could revive such cities without forming some kind of partnership.

Some US cities made generous deals with private developers and assumed some risks, getting out of their conventional position as regulator. The main reasons for the changes were: (1) the restructuring of urban economies in the 1970's, (2) the abrogation by the federal government of the urban renewal program in 1974, and (3) the fiscal crisis caused by taxpayers' initiatives.¹⁰ After the oil shock in 1973, the growth of disposable personal income slowed down and traditional industries began to show poor performance. 38 million people were unemployed, and people at large wanted the public sector to stimulate industry and employment. Also, after the approval of the tax-limiting Proposition 13 in California in 1973, referendums that would limit tax-collection and governmental expenditure were proposed in many states, which continued by the mid 1980's. This meant that many local governments' tax revenues decreased while they were prevented from obtaining new tax bases. The abrogation of the urban renewal program was a prelude to the federal government's reduction of financial support to local governments. This implied that local governments would have to raise funds necessary for development by themselves. Robert Lurcott, who actually dealt with public-private development in the city of Pittsburgh in the 1980's, summarized as follows:

"Because of the relative loss of real estate value in central cities,

downtown land had become less attractive for private investment. Also, government subsidies were less available. All of this meant that the potential private partners needed assurances of maximum cooperation and a minimum of hassle from government to offset the reduced attractiveness. Local governments had to attract private investment to offset the loss of tax base. Therefore, they were willing to commit to a cooperative rather than an adversarial relationship with private developers that was more typical of the traditional "regulator" role."¹¹

On the other hand, the downtown population decline in Japan occurred for different reasons. It occurred mainly because of high demand for office space, which was triggered by the internationalization of the Tokyo market, driving away downtown residents. As Tokyo became one of the most internationally important cities, many foreign companies began to open their branches in Tokyo. For instance, the number of foreign security companies located in Tokyo more than doubled in two years, from 22 in 1985 to 47 in 1987.¹² A significant office increase based on these trends displaced residential units, reducing the downtown population.

Under such circumstances, private developers could redevelop downtown without forming a partnership with the public sector. One of the reasons for forming the partnership was that the public sector had large parcels that were conveniently located. Landfills were typical examples. The public sector had landfills that, while being close to downtown, were not fully developed with proper infrastructure. The public sector wanted to develop such lands to cope with problems it faced: thickly built and continuously growing downtowns. On the other hand, private developers were also interested in public lands. If adequate facilities, especially transportation facilities, were equipped, such places would become convenient, and the land price would probably become high enough to compensate development costs. Again, however, forming a

partnership with private developers was just an option for the public sector to utilize abundant funds.

Summarily, large cities in Japan generally encountered the problem of a continuously growing downtown area. Furthermore, infrastructure, such as roads, parks, and water/sewers, were poorly equipped there. The public sector in Japan therefore used public-private partnership as a method to expand urban areas in order to properly control city growth¹³ rather than to revive deteriorated areas. For an instant comparison, simplified social phenomena in both countries are summarized in Table 1-4.

Table 1-4: Comparison of Background between Japan and the US

	Japan	US
Population	118 million	232 million
Land Area	370,000 km ²	9,360,000 km ²
% of Area Inhabitable	24 %	44 %
Density in Inhabitable Area	1,450 persons/km ²	55 persons/km ²
Historical Urbanization Process	-How to utilize limited land for large population	-How to develop vast land with limited number of people
Urban Transportation	-Mass transportation society	-Car oriented society
Business Function	-Concentration of business function into CBD	-Suburbanization of business function from CBD
Space Demand in CBD	-High demand of business space in CBD pushing residents out of downtown	-High/middle income group and business facilities moving out of downtown
Land Price	-Extraordinarily high land price in downtown	-Drop down of land price in downtown vicinity
Urban Problems	-Middle income group forced to live in remote areas -Commuting jam	-Low income group trapped in downtown -Deterioration

Bibliography

1. Committee for Economic Development, Public-Private Partnership: An Opportunity for Urban Communities, February 1982.
2. R. Scott Fosler, Public-Private Partnership in the United States, A paper for the symposium on public-private partnerships in Japan and North America, October 1989.
3. Bernard J. Frieden, et al., Downtown Shopping Malls and the New Public-Private Strategy, MIT Center for Real Estate Working Paper, August 1984.
4. R. Scott Fosler, Public-Private Partnership in the United States, A paper for the symposium on public-private partnerships in Japan and North America, October 1989.
5. Toshi-Keikaku Kyoiku Kyokai, Toshi-keikaku Kyokasho (Japanese), Shokokusha, June 1987.
6. NLI Research Institute, A Study on the Private Sector's Role in Urban Infrastructure Development in Japan and Its Applicability to the Asian Region, February 1993.
7. Ichiro Yano, Nihon Kokusei Zue (Japanese), Kokuseisha, June 1991.
8. Nomura Research Institute, Real Estate Prices and Urban Planning (Japanese), April 1991.
9. Bernard J. Frieden, et al., Downtown, Inc., MIT Press, 1989.
10. Fukuo Akimoto, Urban Development by Public-Private Partnership No.1 (Japanese), Chiiki-Kaihatsu, March 1992.
11. Robert H. Lurcott, Public-Private Partnerships in Japan and the U.S.: Final Comments and Observations, A report for a symposium on public-private partnerships in Japan and the US, April 1991.
12. Nihon Keizai Shinbun, Tokyo Problem (Japanese), Nihon Keizai Shinbun, March 1988.
13. Shu-ichi Watanabe, Public Private Partnerships, A paper for a seminar on public-private partnerships in urban development, the City Planning Institute of Japan, November 1991.

Chapter II

Several Tips to Better Understand

the Omiya Sonic City Project

1. Tips to be Explained

I think that the Omiya Sonic City project is a good example to study how the public and private sectors reach agreements in Japan. I also think that, through this project, the two sectors clarified several issues to be addressed in order to form a better partnership in the future.

Since the Sonic City is not a US case, it may be a good idea to explain issues that are not necessarily obvious to those who are not familiar with Japan. Also, providing some preliminary information will be helpful to better understand the project. In this chapter, I will begin the overview of the Sonic City project by showing its basic structure. Then, I would like to explain the history of the city and the area in which the Sonic City now stands, with a quick view of what the city government originally intended to do in that area. Since this project was promoted by the prefectural government eventually, what materialized was slightly different from the city government's original intent. Finally, I would like to explain methods that were popular to promote *Minkatsu* projects at the time. It is important to know pros and cons of such methods because a new method was invented through the project to overcome major problems of the conventional methods.

2. Overview of the Omiya Sonic City

The Sonic City is the nickname of the Industry and Culture Center, a mixed-use complex constructed and managed by both public and private sectors. The term "Sonic" stands for the initial letters of each organization concerned plus the function of the buildings, i.e., Saitama Omiya NLI Industrial and Cultural center. While the Saitama Prefectural Government took the initiative in the project, some other players, both public

and private, were also deeply involved in the project. The Omiya City Government owned the largest lot on the project site. It was conducting a development project in the area according to its original development plan. Nippon Life Insurance Company (NLI) and Fujita Corporation (Fujita) jointly proposed a development plan to the prefectural government and were designated as developers of this project.

The Sonic City was completed in 1988 and was located about 300 meters west of Omiya Station, the main station in the area. It consists of three large buildings--an office tower, a hotel, and a city hall. The office tower is the first highrise in the north of Tokyo with 31 stories above ground and 4 stories underground. It houses public office space and private office space. The prefectural government owns the public office space and uses it as offices for public organizations, a passport center, meeting rooms, and convention halls. NLI owns the private office space and uses it as offices for private companies and a showroom. NLI also owns a hotel building and rents it to a first-class hotel company based in Tokyo. The city hall is owned by the prefectural government and houses one of the largest multi-purpose halls in Japan. In front of the buildings is a park of 6,750 m² where citizens usually enjoy lunch at noon and date in the evening. A second-story-level pedestrian deck was constructed simultaneously with the Sonic City to connect it with the station and surrounding large buildings. This deck enabled people to safely travel between the station and the Sonic City despite very narrow street-level sidewalks.

In promoting the project, the prefectural government invited private companies to become involved. This was because the government felt uneasy about construction

fund-raising, estimated to be over 30 billion yen (US\$ 150 million),^{Footnote 1} tenant recruitment, and building management. Methods that were popular at the time to invite private companies were rejected for various reasons. The prefectural government finally invented a new method for this project, an equivalent exchange method that would allow the exchange of the land lease title and building ownership.

Using this method, the prefectural government first leased the prefectural land to NLI. Then, NLI constructed buildings on the leased land at its own cost. Finally, the prefectural government purchased the necessary portion of the buildings upon their completion by exchanging the land lease title for the building portion. Since both parties exchange properties of equivalent value, this method is called the "equivalent exchange method." Through such an exchange, the prefectural government and NLI became joint property owners and were required to form a long-term partnership to manage them.

The Sonic City project has several distinctive features. First, the prefectural government invented a finance plan for itself. The government originally had to pay 12,371 million yen (US\$ 62 million) to purchase the public portion. However, the actual amount paid was 7,713 million yen (US\$ 38 million), because 5,091 million yen (US\$25 million) was paid by NLI to the prefectural government in order to obtain the land lease title, and this was used as part of the prefectural government's payment.^{Footnote 2}

The designation of the developer was also unique, because a project competition was conducted. The prefectural government announced the competition terms in 1984

¹ The exchange rate used is 200.50 yen = US\$ 1.00, the rate prevailing at the end of 1985. This rate will be used hereafter, unless otherwise specified.

² In a land lease transaction in Japan, the lessee generally pays 70-80% of the land value to the lessor at the beginning of the lease in order to obtain the land lease title, and then annually pays 2-3% of the land value as ground rents.

and invited project proposals which must cover a wide range of plans from design to management stages. Among the proposals submitted, the prefectural government selected NLI/Fujita's proposal as the best and designated them to be the developer of the project. Since the prefectural government employed a method that was so unique in Japan at the time, it was called the "Saitama Method," named after the prefecture that promoted the project.

Figure 2-1: The Omiya Sonic City

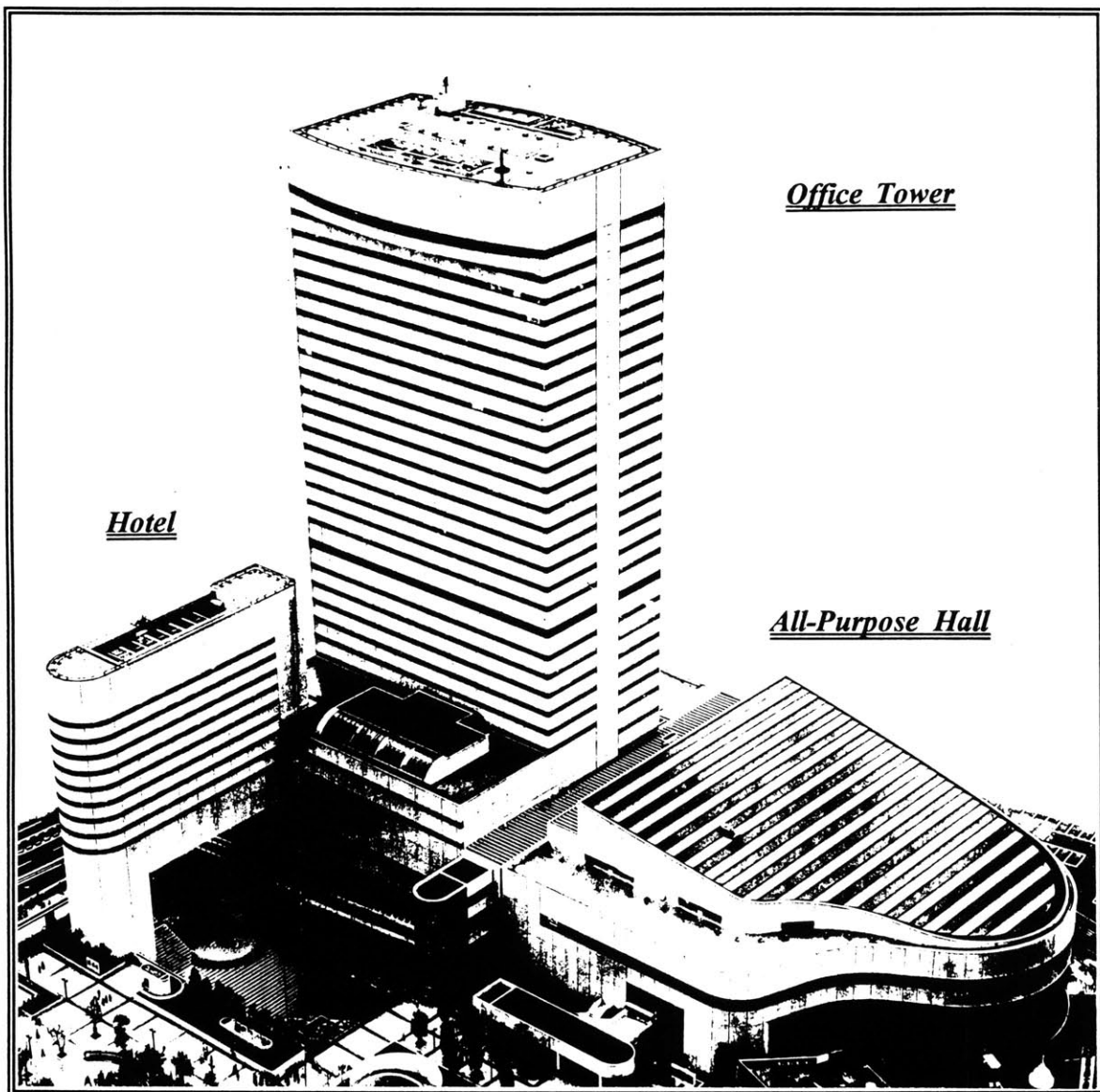


Table 2-1: Outline of the Omiya Sonic City

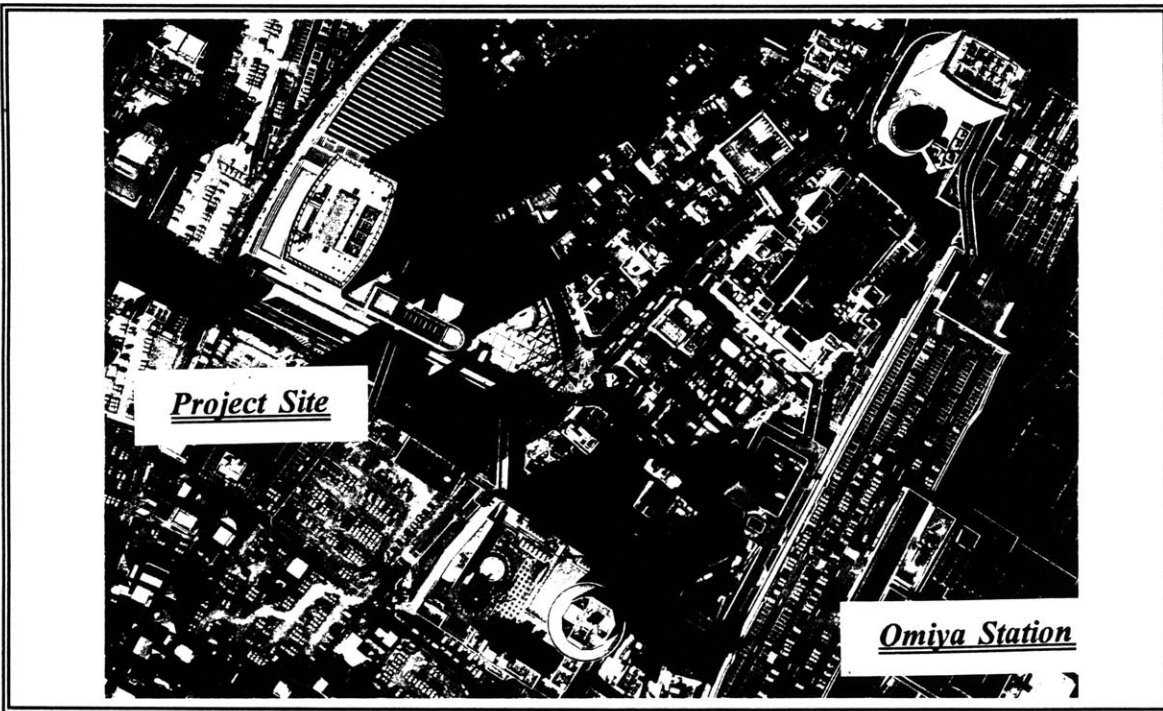
Location	Omiya City, Saitama Prefecture	
Year of Completion	1988	
Project Scale	Land Area: 22,334 m ² Floor Area: 124,945 m ² (31-story office tower, hotel, and city hall)	
Floor Area	Office Tower and Hotel	City Hall
	109,666 m ²	15,279 m ²
Public Portion	16,404 m ²	15,279 m ²
	Public Organization Offices Passport Center Meeting Rooms Convention Halls Parking (87 spaces)	Main Hall (2,505 seats) Auxiliary Hall (496 seats) International Conference Room
Private Portion	61,247 m ²	
	Office (32,148 m ²) Hotel (19,903 m ²) Retail (1,637 m ²) Parking (7,559 m ² , 204 spaces)	
Common Portion	32,015 m ²	
Each Party's Roles	<p>Land Ownership: Saitama Prefectural Government Omiya City Government Nippon Life Insurance Company (lease)</p> <p>Construction Work: Fujita Corporation</p> <p>Building Ownership: Saitama Prefectural Government Nippon Life Insurance Company</p> <p>Bldg Management: Saitama Foundation for Culture and Industry Omiya Sonic City Corporation</p>	
Finance Plan	<p>Total Construction Cost: 36.3 billion yen (US\$ 180 million)</p> <p>While the prefectural government had to pay 12.4 billion yen to purchase the public portion, it actually paid 7.7 billion yen by appropriating 5 billion yen of the land lease title fee. It would also receive 140-million-yen ground rents annually from NLI.</p>	

Source: Saitama Foundation for Culture and Industry, et al.

Figure 2-2: The West Gate Area before Development



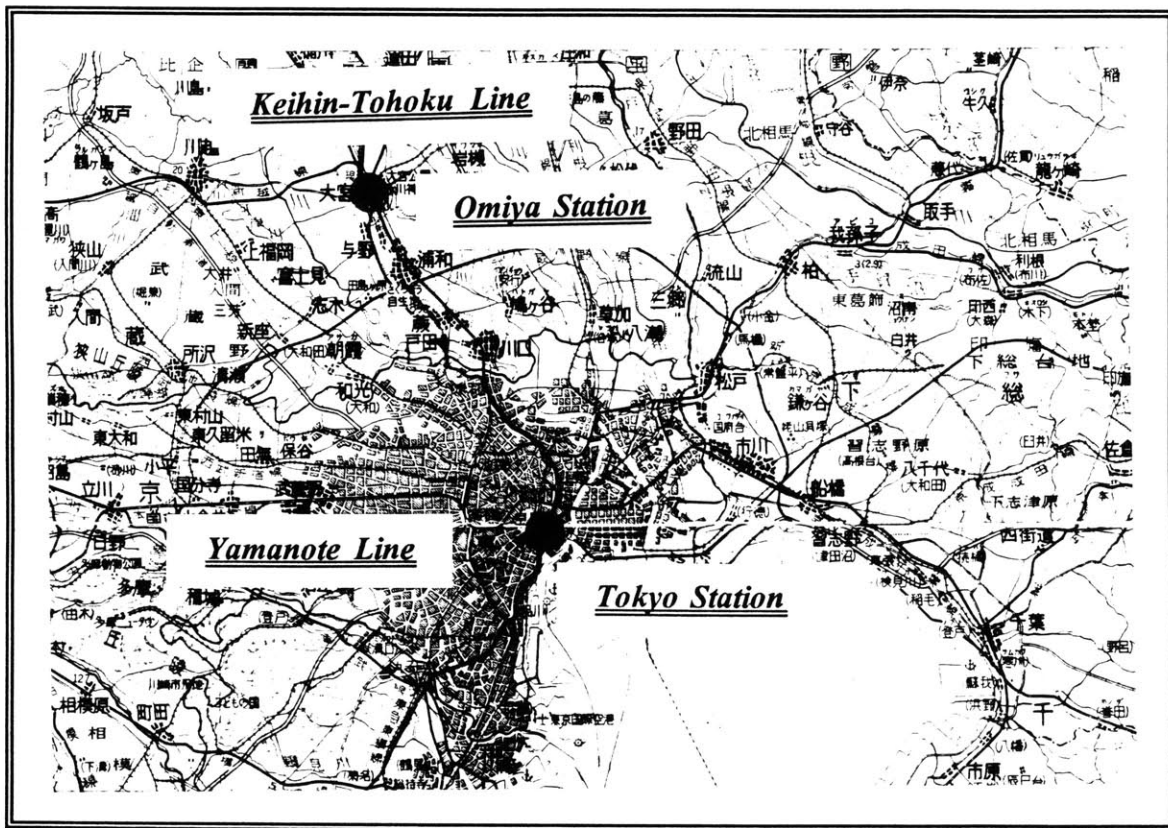
Figure 2-3: The West Gate Area after Development



3. History of Omiya City

Omiya City is located about 40 minutes from Tokyo Station via the Keihin-Tohoku Line. Omiya is the largest city in Saitama Prefecture with 403,776 residents (1990) and, and located about 30 kilometers north of the center of Tokyo, close enough to commute there. Omiya is a transportation center with nine lines running through Omiya Station, the regional core station. About 410,000 commuters, about the same volume as the city population, get on and off trains at this station everyday.¹ Although the prefectural government is in Urawa City, just south of Omiya, Omiya City is regarded as the most important business center of the prefecture.

Figure 2-4: Omiya City



Omiya has a long history, having been founded over eight hundred years ago. The name of the city, "Omiya," literally means a "large shrine." This is because the city was founded as a shrine town.

After Japan abandoned its national isolation policy and became open to foreign countries in the 1860's, Omiya began to grow as a railway town. Omiya Station was completed in 1885 as the fifth station in the prefecture. Railway factories were constructed in 1894 and promoted local employment. Since Omiya held an advantage in railway transportation, many local businesses were established. Among them, textile, Japan's main export at that time, became a large industry and led the city to be further industrialized.

In 1940, the Town of Omiya was promoted to a city status, as the fifth city in the prefecture. The population at that time was 59,740.² The Central Business District of the city was stretching to the east, from Omiya Station to the Hikawa Shrine, the largest shrine in the city. The west side of the station was, however, in very messy shape. What could be seen were rows of wooden houses that were densely built, railway company dormitories, shabby bars, and a small shrine dedicated for railway transportation safety. This situation continued until the Sonic City was constructed in this area.

In 1955, Omiya annexed six adjacent villages and became the largest city in the prefecture. By this annexation, the city formed the current administrative district and increased the population to 148,016, almost 2.5 times larger than that of 15 years before. Omiya was selected as an area in which development would be highly encouraged by the Metropolitan Area Development Law of 1959, and a number of housing and industrial developments were promoted one after another. These developments were for the greater

Tokyo Metropolitan area as well as for local communities, and Omiya gradually assumed the function of Tokyo's bed-town. Although these developments helped department stores and retail shops establish themselves in Omiya's downtown, its main industry was still manufacturing rather than office-related tertiary industry. With JNR-related factories dominating its industry, Omiya had remained a railway town for a long time.

Omiya grew remarkably until the 1970's, when Japan experienced the world-wide oil shocks. The population in 1975 was 328,914. This means that the city population had more than doubled in twenty years without annexation. As the population grew, the Densely Inhabited District (DID) also expanded.^{Footnote 3} In 1960, only 14% of the administrative district was the DID, and 66% of the population lived there. In 1975, however, 37% of the administrative district became the DID, and 74% of the population lived there. This means that Omiya's DID got crowded year by year. The population density of the entire city was 3,687 persons per square kilometer in 1975,³ almost the same density as recent Washington D.C., which was 3,819 persons per square kilometer (1990).⁴ Within the DID, the population density was much higher. It was 7,491 persons per square kilometer in 1975, almost 40% of that of Manhattan Borough, although most buildings were less than three stories in Omiya.

As Omiya grew, the environmental gap became clear between the east and west sides of the station. The east side was thriving. Most people came from the east side of the station to get on trains in the morning and exited out to the same side in the evening. Most retail shops, restaurants, and financial institutions were also located in the east side

³ The Densely Inhabited District is a concept to provide urban area boundaries, invented in Japan in 1960. It consists of census survey districts where over 4,000 persons inhabit per square kilometer.

area. The west side looked very shabby, on the contrary. Roads were narrow and winding. Many were unpaved. Houses were small and unhygienic. Built of wood, they were also dangerous in case of fire.

After the oil shocks, the structure of Omiya's industry somewhat changed. The manufacturing industry stopped growing both in terms of the amount of sales and the number of employees. Then, the tertiary industry such as wholesale, retail, and service-providing businesses flourished. Nonetheless, Omiya was not regarded as a regional core yet. It was still a bed-town. According to official statistics, 54% of workers and students over 15 years old commuted out of the city everyday. More interestingly, 29% of workers and students commuted to Tokyo.⁵

4. The West Gate Area and the Omiya City Government's Plan of the Area

When the prefectural government announced a development plan of the Sonic City in 1983, the west gate area, an area just west of the station, was still underdeveloped despite a land readjustment project that the city government had conducted.^{Footnote 4}

The city government decided on the land readjustment of the west gate area in 1963. At that time, the area was just like a backdoor leading to railway-related factories. The west side station square was poorly equipped. Exiting the station to the west, one could see nothing but rows of shabby bars hanging a red paper-lantern called "Aka-

⁴ Land readjustment is a method to equip public facilities, such as roads and parks, without raising special funds for it. Through a land readjustment project, every lots in the project area will be replaced and standardized in shape, which will bring the appreciation of the land price in the area. With an expectation of such appreciation, the project will be conducted, in many cases, by a public organization.

Chochin" in the front.^{Footnote 5} There were about 70 bars, which had settled during the chaos of the post World War II period. Most roads were privately owned, narrow and winding. Residential buildings were old and small, looking like tenement houses. Over 70% of them were less than 100 m². There were about 500 houses that seemed to be superannuated in front of the station.

The west gate area was rather vast, therefore the city government divided the land readjustment project into two phases. The Phase I area was just west of the station. The main objective of the Phase I project was to construct a large station square and wide roads that would connect the station square with a principal road running nearby. The Phase II area was where the Sonic City now stands, and the main objective was to construct access roads and large open space for resident nearby.

To proceed with the Phase I project, the city government began to purchase lots in 1969. However, the land readjustment was not easy. This was because many people owned lots in the area. What worse, most lots were very tiny. Many land owners expressed their anxieties about whether they could remain in the area even after the land readjustment project. According to an official report, the number of people who had any right in the area was 432.⁶ The number of lots was 428, though the area was as small as 68,600 m².

In 1971, Japanese National Railways announced that new super-express lines would be constructed through Omiya city. This made the landowners' attitudes somewhat cooperative. They began to study and make plans that would suit their interests. Since many lots were tiny, with most being smaller than 165 m², the city government planned

⁵ An aka-chochin is the marker for a dive bar in Japan.

to assemble lots into one large parcel. Then, the government wanted the landholders to collectively construct a large building on it.⁷ Although 53 people expressed opposing opinions in 1978, the city government relentlessly conducted the land readjustment project, sometimes enforcing eminent domain. The house demolitions began in 1979, and many bars had to move out. Some of them moved to temporary stall-like structures offered in the Phase II area to continue their business.

The land assembly in the Phase II area was rather easy compared to that in the Phase I area. This was because most lots were publicly or semi-publicly owned. The city government owned the largest lots, on which an elementary school stood. The prefectural government owned a chamber-of-commerce site, and Japanese National Railways, a semi-public corporation, owned a shrine site. The only private company in the area had a bank site.

Neighbors were generally favorable to the Phase II land readjustment project. This was because the area seemed lifeless at a pitch-dark school ground at night. They also thought that the school might be one of the reasons why the west gate area was underdeveloped. The location of the school was not desirable from the educational point of view, too. Since many dive bars were around, pupils were always subjected to an unfavorable influence. The city government was not quite sure how to use the site after the elementary school moved, however. It intended to use the site as an open space like a park, though such an idea was not confirmed. The city government could not decide on the use of the site until the prefectural government asked for the construction of the Sonic City on the site.

At the same time, the city government planned to construct a second-story-level

pedestrian deck in the west gate area. This plan was considered because the station had to be expanded for new super-express lines opening in 1982. The station was planned to have a large corridor that would connect both sides of the station. If the pedestrian deck was well connected to this corridor, the pedestrians' mobility would be greatly enhanced in the west gate area.

5. *Minkatsu* Methods Applied to Urban Development

It is not easy to fully explain *Minkatsu* methods applied to urban development, because so many methods have been introduced under the name of *Minkatsu*. In the field of urban development, however, many such methods are intended to assist private enterprises in developments rather than to make the public sector become deeply involved in them. Although the original *Minkatsu* idea was to reform the inflexibility of public organizations, this idea has been amended somewhat to invite private companies to development projects. To insure that the case study in the next chapter be well understood, I would like to briefly explain four main methods applied to *Minkatsu* projects.

The *Minkatsu* methods include deregulation of restrictions that have made urban developments difficult; granting extra incentives to construct public facilities by private development projects; establishment of third sector organizations to promote development projects cooperatively by the public and private sectors; and effective utilization of currently under-utilized government lands.⁸ Obviously, these methods were invented by the public sector as stimulants to invite the private sector to public enterprises to develop urban areas that were less equipped with public facilities.

The main purpose of the deregulation and granting of extra incentives is to further stimulate activities that private companies have conducted even before *Minkatsu* was introduced. By doing so, the government has intended to construct public facilities, such as roads, at private companies' cost. The government has not become involved in projects but just removes impediments and provides incentives to private companies for projects it wants to encourage. Therefore, if a category that the Committee of Economic Development introduced is applied, these methods can be said as "government initiatives."

Deregulation became popular in Japan especially after 1982. Several zoning and building permit restrictions were relaxed in 1982. This trend was stimulated by Prime Minister Nakasone's statement that zoning should be changed so that buildings within the Yamanote Line, a circular line with a radius of about 10 km surrounding Tokyo's central area, could be higher than five stories. Many governmental committees were established, and discussions of the effects of relaxing urban development-related restrictions on the utilization of private funds took place. In the discussion, an increase in allowable FAR got special attention and was considered one of the most effective methods to invite private companies to participate in urban development. In 1986, the so-called "*Minkatsu* Laws" were enacted in order to provide private developers with special assistance in taxation and funding when they helped equip public facilities. Further, a new zoning method was devised in 1988 which would enable local governments to more flexibly specify land use than the existing zoning system.⁹ By this method, local governments became able to more freely negotiate with private developers because they obtained the wider range of the authority to determine land use.

Extra incentives are given mainly in monetary form. An interest-free loan was

established in 1987 by using sales proceeds of the Nippon Telegram and Telephone Company's stocks. This company was a public corporation. But, the national government privatized it and sold its bonds to the public in the 1980's. The loan can be available for up to 50% of construction costs of public facilities specified by the government, with a repayment period of up to 15 years. By this loan, the government intended to stimulate infrastructure construction while restraining its expenditure and bond issuance.

The other two methods, the establishment of third sector organizations and the utilization of under-utilized government lands were invented by the government to induce private companies to public enterprises for which the government was originally responsible. These methods require a much closer relationship between the two sectors than do the aforementioned methods and therefore contain much opportunity to form a public-private partnership.

A third sector organization is a company, usually a limited company, jointly established by both the public and private sectors in terms of capital contribution and the appointment of directors. There is no norm for public contribution to qualify as a third sector organization, and the amount of public contribution is generally determined by the level of business risk and commitment that the government wants to retain. By legal requirement, however, if a local government has over 25% of total capital in a third sector organization, this organization has to be supervised by the local government's special committee. If a local government has over 50% of total capital, then this organization has to report its business performance periodically to the local assembly in order to obtain approval for such performance.¹⁰ Although capital contribution ratios of third sector

organizations vary from case to case, local governments usually hold at least 25% of the capital so that they can enjoy preferential measures in taxation, subsidies, and low- or no-interest loans under the *Minkatsu* Law through such organizations. In 1990, the number of third sector organizations of which the public sector's share was over 25% was more than 800. About 30% of them were involved in urban development-related projects, such as downtown development, regional development, and transportation systems construction. The remaining 70% were involved in projects of leisure, tourism, agriculture, and fisheries. Table 1-3 shows that the meaning of a third sector organization is rather conceptual and it is recognized in many ways case by case.

Table 2-2: Definitions of Third Sector Organization

General Recognition	A corporation that is founded jointly by the government (the first sector) and a private enterprise (the second sector).
Home Affairs Ministry of Japan	Any organization founded pursuant to the Commercial Law regardless of whether it is a public corporation, association, fund or limited company, as long as over 25% of the capital was contributed by a single local government.
Governmental Requirement to use the NTT Interest-Free Loan	A corporation invested by a local government or a 100% subsidiary of a local government.

Source: Regional Development, September 1991.

The original idea of a third sector organization was developed in the New National Development Plan, the second nation-wide development plan of Japan, in 1969. This was over ten years before the idea of *Minkatsu* was introduced. Then, the third sector organization was re-recognized in the 1980's, as it was considered an ideal organization for *Minkatsu* projects, endowed with the characteristics of the two sectors that would be involved in partnerships.

In the early 1980's when the third sector organization became a recognized performer in a *Minkatsu* project, the two sectors frequently established such organizations expecting benefits as shown in Table 2-3.

Table 2-3: Merits Expected from Third Sector Organizations

<p>Benefits for the Public Sector</p> <hr/> <ul style="list-style-type: none"> - Large-scale development of the public purpose can be possible by using private sector funds. - Development risk accompanying large-scale development can be reduced because private sector's expertise and business network are utilized from an early stage of development. - Development can be efficiently managed, utilizing the private sector's business experiences and skilled personnel. - The profitability of a project can be clearly assessed, because a third sector organization is usually established to conduct only one project. - The public sector can be released from annual budget restrictions.
<p>Benefits for the Private Sector</p> <hr/> <ul style="list-style-type: none"> - Land assembly can be relatively smooth because of the public sector's accountability and the power of eminent domain. - Administrative procedures may be smoothed. Extra incentives, such as an increase in FAR, may also be granted. - A positive company image may be created because of the public purpose of a project. - Special taxation and loan measures may be available. For example, the NTT interest-free loan is limited to third sector organizations, and pure private companies cannot use it.

Although many benefits were expected from third sector organizations, the ones that were actually established have shown several problems as well. First, the responsibility of each sector tended to be unclear. Even though general agreements were made concerning responsibilities--for instance the public sector would get official permits necessary to development and the private sector would take care of financing--it would not be clear who in the organization would be responsible for a specific matter. Most

people at third sector organizations were not employed by the organization itself, but sent from its parent organizations. Since they were sent as part of a job rotation, they tended to shirk their own responsibilities in order to go back to their original organizations without making mistakes. Second, third sector organizations sometimes became inefficient in running business because of administrative procedures that the government had to fulfill. When the public sector had over 50% capital of a third sector organization, the public sector had to report the business performance of such an organization for approval. This practice significantly reduced the business flexibility of such organizations.

Fortunately, several organizations succeeded in conquering these problems. For example, a third sector organization that dealt with a ski area development in Tochigi Prefecture, successfully clarified each sector's responsibility by deciding in advance to switch the directorship at a certain stage of the project.¹¹ While the project was under construction, the director was a person from the public sector in order to effectively carry out administrative matters. Then, when the project was coming to the completion, the directorship switched to a person from a private company to deal with managerial matters. In another case, a third sector organization changed the capital contribution ratio according to the project stage for the same purpose. In the former stage, the public sector had 80% of the total capital of the organization. Then, by purchasing all stocks additionally issued, the private sector obtained 80% of the capital and became responsible for running business in the latter stage.

Although several third sector organizations were successfully operated, many were reported to have internal problems to some extent. And, it was generally recognized that

a third sector organization might not perfectly function as it was originally expected.

The last method of promoting *Minkatsu* projects is the effective utilization of under-utilized government lands. This method is beneficial for the public sector, because it may bring extra funds to the government if the government sells the land to private companies. It also may stimulate the domestic construction market, thus expanding the domestic demand at large. This is a situation that the government, especially the national government, wants to achieve. The effective utilization of under-utilized government lands is beneficial for the private sector, too. This is because it offers special development opportunities that a private company would not achieve alone. The government has much unused land at desirable locations for development. This incentive therefore serves as impetus for inviting private companies into development projects for public uses. The Sonic City project, which will be explained in the following chapters in detail, was developed under this method.

In principle, the government land has to be used with a top priority for public use. This idea had strictly prohibited the government from selling its lands. In 1983, however, this restriction was relaxed to improve the government's financial deficits. The government began to sell its lands at open bids. This practice brought the public sector new funds as well as a serious problem. This was because open bids resulted in triggering extraordinary appreciation of the surrounding land.¹² To solve this problem, new transaction systems were studied that would conceal the exact land price applied in a transaction. To enable such transaction systems, several restrictions were relaxed, and several new laws were enacted in 1986. Under circumstances like this, the public sector was getting ready to form a partnership with private companies.

Bibliography

1. The City of Omiya, Omiya City Guide (Japanese), March 1992.
2. The City of Omiya, Omiya-Shi Tokei-Sho (Japanese), March 1993.
3. Ibid.
4. U.S. Department of Commerce, Statistical Abstract of the United States, 1992.
5. The City of Omiya, Omiya-Shi Tokei-Sho (Japanese), March 1993.
6. The City of Omiya, Omiya-Eki Nishi-Guchi Tochikukaku-Seirijigyo No Kiroku (Japanese), March 1991.
7. Seed Kenkyu-Jo, Success Story: Sonic City (Japanese), Saitama Sogo Keizai Kenkyu-Jo, March 1989.
8. New Urban Software, Machi-Zukuri No Junan Shiko (Japanese), June 1992.
9. Makoto Murata, et al., Sosite Bubble Ga Kita (Japanese), Nikkei Real Estate/ Tokyo, January 1993.
10. National Land Agency, Chiiki Kasseika Shisaku Suisin Chosa (Japanese), March 1991.
11. Toru Matsumura, et al., Toshi Kaihatsu To PPP (Japanese), Shin Toshi-Kaihatsu, October 1991.
12. Shigeru Itoh, Toshi Kaihatsu: Sono Riron To Jissen (Japanese), Gyosei, August 1990.

Chapter III

A Case Study: The Omiya Sonic City

1. A Request for Replacing a Chamber-of-Commerce Building

The story of the Omiya Sonic City began in August 1976, when the Saitama Prefectural Chamber of Commerce made a request for replacing its building. The building was 7 stories high and located on the west side of Omiya Station, where the Sonic City now stands. It was not a large building, with a land area of 3,112 m² and a floor area of 6,426 m². Since a 1,000-seat hall was housed in it, the floor area that was actually open was very narrow.

The chamber of commerce made the request for the following reasons. First, its operation range and volume had significantly increased, and it got to feel cramped for room. For the last two decades, Japan had experienced remarkable growth. Saitama Prefecture was no exception. Rather, it had grown at a higher rate than the country's average. This created the chamber of commerce's need for more space. Second, constructed in 1961, the building got so old that it required considerable maintenance costs every year. The roof was leaking. Old elevators and an HVAC system had to be frequently fixed. Third, the building was not well equipped. It did not have necessary facilities to be a good public building. It had neither a hall lobby nor parking lots, though it had a public hall.

In July 1978, the prefectural government set up the Committee of the Industrial Center, a special committee consisting of 13 prefectural officials, to handle this request. At this moment, nobody expected to construct a large complex like the Sonic City in the future. In October 1978, the committee made a plan to construct an industrial center. The plan was to construct a 15-story building, intended not only to provide space for the chamber of commerce but also to encourage local tertiary industry by creating new space

for it. However, cultural facilities such as a concert hall were not included in this plan yet.

2. Becoming the Prefecture's Leading Project

The plan slightly changed the nature, when the prefectural government adopted the Intermediate Range Plan in November 1979. This plan urged the need of prefectural cores, both economically and socially. In those days, Saitama was known as a prefecture of no identity. Some people even believed that it was a part of Tokyo.

Yawara Hata, Governor of Saitama Prefecture, wanted to create something appealing to local residents, thus establishing local identity. Facing a governor election in the following year, he simultaneously wanted to have something visible as a result of his administration.

Hata was originally a prominent lawyer, vice-chairing a local bar association. Before becoming Governor, he served as an assembly member for two terms and as a Dietman for four terms. When first elected as Governor in 1972, he attracted public attention. This was because he was the only socialist governor at that time, belonging to Japan Social Democratic Party. In 1979, however, he left the party and declared to serve for local residents at large, in order to get broader support.

The Intermediate Range Plan proposed an industrial and cultural center, adding a cultural function to the original plan. The objectives of the center were (1) to encourage local tertiary industry, (2) to stimulate cultural spirits of local residents, (3) to promote international exchange in the prefecture, and (4) to create a symbol of the prefecture.

The prefecture had many manufacturing factories but did not have enough office-

related businesses. The lack of these businesses had forced local residents to commute to Tokyo, rather than work within the prefecture. The prefectural government thus wanted to encourage local tertiary industry and increase office-related businesses for local residents. Among such industry, business administrative functions, such as headquarters and regional branches, were strongly needed, because these functions were expected to help local residents stay within the prefecture and be attached to it.

Culture was considered equally important to establish local identity. A large all-purpose hall was proposed as a cultural facility, because local residents, having no large hall in the prefecture, had to go to Tokyo to see plays or attend concerts.

Creating a prefectural symbol was also a big objective of the new center. Since many local residents were not indigenous but had moved from other prefectures to work in the Tokyo metropolitan area, a visible symbol was necessary to unite such local residents. A question then was what would make the center symbolic. Some considered that a landscape full of plant-life would be appropriate because the city was famous for its shrines and surrounding woods. Others suggested to construct something small but luxurious, like a well-decorated opera house. Finally, it was agreed to construct a very tall superstructure, which could be seen from distant places. From the economic point of view as well, a highrise was considered most appropriate, for it would generate rental revenues. A highrise seemed to be very symbolic because there was no highrise in the north of Tokyo at that time.

Although the plan was adopted, no single matter was determined in detail. Nobody knew where the center would stand. Nobody had a more precise idea of functions that the center would assume than what the plan had declared. Since a public

hall seemed not to be profitable, some were somewhat doubtful that the center would include cultural facilities even though the plan proposed to do so.

Various aspects of the center were discussed by 1980. The discussion was, however, within two prefectural departments, the Commerce and Industry Department and the Planning and Finance Department. These two departments were concerned because the Commerce and Industry Department first received the request from the chamber of commerce, and because the Planning and Finance Department had the authority to make a final decision on financial matters. The prefectural government did not consider to utilize private companies' funds and expertise at this moment, because private business seemed brisk after the oil shocks in the 1970's. Rather, it intended to construct the center at its own cost and capability. Unfortunately, however, budget for the center was not easily appropriated, for the prefectural budget was tightly constrained. The center was like a dream for the two departments.

In March 1981, the Committee of the Industrial and Cultural Center was established. Some members were invited from outside of the prefectural government to incorporate broader opinions that officials would not be struck with. The members included a local university professor, an economic analyst, and an Omiya municipal official, in addition to some prefectural officials. The committee proposed a 34-story building, reflecting the idea of making the center a prefectural symbol. It also suggested that the site of the center should be part of the land readjustment project area that the Omiya city government had been conducting. This suggestion was reasonable because the chamber of commerce was originally there. Also, the site was conveniently located, being close to Omiya Station. Further, it seemed to be easier to assemble the site because

most of the site was publicly owned.

Having received the proposal from the committee, Hata established several inter-departmental committees, thus making the Industrial and Cultural Center project a matter of the entire government. The Inter-departmental Committee of the Industrial and Cultural Center was first established in June 1981. Establishment of special purpose committees was one of Hata's unique administrative measures. He often set up special purpose committees and let them study a particular matter that the prefectural government had to deal with. This measure was frequently used throughout this project.

The Inter-departmental Committee of the Industrial and Cultural Center basically assumed the following three functions: to circulate information to the entire government, collect opinions from the entire government, and make formal agreements that would concern the entire government. The inter-departmental committee made such formal agreements as follows: a highrise should be constructed to create a prefectural symbol; the site should be in the west gate area where the chamber of commerce originally existed; and the Planning and Finance Department would be responsible for land-related affairs while the Commerce and Industry Department would be responsible for building-related affairs. By the agreement of the inter-departmental committee, construction of a highrise was formally determined; it was no longer a suggestion or dream.

In December 1981, Hata expanded the Committee of the Industrial and Cultural Center to include more members from both the inside and outside of the government. Several professors and officials were nominated. After adding new members, the committee made an important suggestion to the prefectural government. It suggested that the prefectural government should invite private companies to the project in order to use

their funds and expertise. Since the prefectural government did not have enough funds and experience, the suggestion was very appealing. This having become a turning point, the prefectural government began to consider how to use a *Minkatsu* method in promoting the project.

In November 1981, the prefectural government conducted a questionnaire survey to obtain local residents' opinions about the project. Of the valid responses, about 40% expressed the desire to have a first class hotel and a convention center, because the prefecture had neither of them at that time. Many of local hotels were small and looked like what are called love hotels, where people stay for a special purpose. Local residents therefore wanted to have a hotel that they could recommend their friends to stay. Also, about 60% expressed that they usually visited Tokyo to enjoy cultural performances such as concerts and theatrical performances. They could not find such opportunity in the prefecture, because there was no large hall that suited such performances. This survey made the prefectural government realize the need for a first class hotel, and became one of the reasons why a hotel would be included in the Industrial and Cultural Center.

In October 1981, the prefectural government ordered Urban Planning and Design Institute, one of Japan's experienced urban planning research institutes, to make a comprehensive report of the center. With this report, the prefectural government wanted to make sure of basic conditions that the center would have to satisfy. The report was expected to be in very fine detail, including plans on the kind of facilities included, floor areas of such facilities, and how to promote the project. Submitting a report in February 1982, the institute recommended that the prefectural government should establish a third sector organization cooperatively with the city government and the chamber of commerce

to promote this project.

This report showed the first idea of how to employ a *Minkatsu* method in the project. It was 1982, when the Second Ad Hoc Administrative Review Commission published the report on administrative reform. The idea of *Minkatsu* was very popular at that time. And, a third sector organization was a method that was the most frequently employed in conducting *Minkatsu* projects in those days. Confronted with a tight budget constraint, the prefectural government was interested in utilizing private companies' funds. It was also interested in utilizing private companies' expertise, because it did not have any experience in private office management. Soon, it began to examine whether the third sector organization was applicable to the Industrial and Cultural Center project.

3. Considering Ways to Invite Private Companies to the Project

In February 1982, Hata officially decided to invite private companies to the project somehow or another. Although interested in employing a *Minkatsu* method, Hata was simultaneously anxious about establishing a third sector organization to promote this project. He personally did not think that a third sector organization was a good way to invite private companies or utilize their expertise. If a third sector organization was established, the prefectural government had to get deeply involved in business it would conduct. The prefectural government, however, had never inducted private companies into its buildings. It had never managed buildings that private companies used. It was also afraid of being charged with serious responsibility in case of failure of the project.

The Planning and Finance Department was also against the third sector method. It did not think that the prefectural government could run a hotel by itself, although Urban

Planning and Design Institute recommended to do so in its report. It felt that running a hotel was much riskier than managing private office space. Further, the capital necessary to establish a third sector organization was expected to be so large that it did not think enough funds would be contributed even if the prefectural government asked the city government and the chamber of commerce to cooperate for the project. Actually, at least 4 billion yen (US\$ 20 million) had to be raised at the beginning, assuming one tenth of total project costs would be necessary to promote it. The chamber of commerce was, however, unable to collect such a large amount from affiliates because many of them were small and petty.

In February 1982, the same month that Urban Planning and Design Institute submitted its report, Hata ordered the Commerce and Industry Department to study how the project should be promoted. This was the first step in developing what is now called the "Saitama Method." Having received the order, the department began to study both pros and cons of *Minkatsu* methods that prevailed in those days. The study continued until May 1983, when the prefectural government announced a unique method to promote the project in the Construction Plan of the Industrial and Cultural Center.

In April 1982, Hata established the Industrial Policy Office within the Commerce and Industry Department. The first duty of the office was to complete the Industrial and Cultural Center. The office therefore studied various *Minkatsu* methods to select an appropriate method for the project. The study was concentrated in the following three methods: the third sector method, the land trust method, and the equivalent exchange method. The third sector method was the most popular at that time. The land trust method was attracting attention but was not established as a *Minkatsu* method yet. The

equivalent exchange method was totally new to *Minkatsu* projects.

As the study progressed, the office reached a conclusion that the equivalent exchange method would be most appropriate for the project. Although totally new to *Minkatsu* projects, this method was popular in the private development business. Under this method, a developer usually constructed a building at its own cost. Then, the land owner exchanged part of the land for part of the building, thus both parties owning and managing the same building on the same land. Since both parties would exchange equivalents between one another--i.e., part of the land from the land owner and part of the building from the developer--this was called the equivalent exchange method. One remarkable benefit of this method was that the land owner could acquire part of the building without spending any amount of money nor the confusion over complicated construction and management-related problems.

There were several reasons why the Industrial Policy Office reached this conclusion. First, the prefectural government could save much construction costs. Unfortunately, it had to pay a certain amount to obtain the necessary floor area, because such area was expected to be more valuable than the land to be sold. Still, it could save a significant amount by employing this method. Second, the prefectural government would not be bothered by the private portion in the project. This meant that it would be free from tenant recruitment and management. At that time, tenant recruitment seemed to be difficult. The 60-story Ikebukuro Sunshine Building, Japan's then highest building, was suffering a great loss, with only one third of the total floor area occupied. The prefectural government was also afraid that it would face the pressure for rents lower than the market rate. This seemed to be very probable if a public organization became in

charge of tenant recruitment and management. Third, the prefectural government would be free from hotel business as well. Fourth, even if private office and hotel failed to run successfully, the prefectural government would not have to take responsibility for it. The responsibility of each sector was expected to be very clear under the equivalent exchange method. This was because the building would be clearly separated into the public portion and private portion. Also, since this method had many precedents in the private business, this method seemed to be very feasible in a *Minkatsu* project.

The equivalent exchange method was, however, no cure-all. Rather, it contained several problems to be solved. One problem was how to secure the fairness in designating the private developer. The prefectural government usually called for bids when it had to designate a developer. The government, however, could not do so this time, because there was no execution drawing of the center yet. More exactly, the government could not design the center alone because more than half would be owned by the private sector. Without execution drawings, no developer could accurately estimate costs to make a bid.

In solving this problem, the prefectural government hit upon a good idea, a competition. There had been many competitions before. Those were, however, only to select a design or plan. Once the competition was over, there was no official relationship between the public and private sectors any longer.

The competition considered this time was different from them. It was a project competition. It would require private developers to submit plans for each development stage, such as design, finance, construction, and management. Since proposals would be compared in a competition, fairness would be secured. Also, private companies' expertise

could be highly appreciated because they would design the center, both physically and financially. If a project competition was held in this way, it was expected that a long-term relationship would be formed between the prefectural government and a private developer. This was because both had to use the same site and building together for a long time.

Having devised a new method of a project competition, the prefectural government could make clear the way to construct the Industrial and Cultural Center. First, the prefectural government had established the clear objectives of the center. Now, it would invite a private developer to construct the center according to the already established objectives. Finally, the prefectural government would own and manage the center with the developer, clearly separating each party's responsibility. This proposed way, however, seemed to be somewhat risky to Hata. Since private companies would run business in a building that the prefectural government planned for the public purpose, he had to convince the public. He also had to get clear results to prove that his decision was right.

In May 1982, the prefectural government publicized the basic idea of the center. This created some claims and controversies. At a public hearing held in June 1982, residents requested the prefectural government to make careful considerations for construction-related problems such as electric wave jamming. They also wanted many local companies to be employed in the construction work. This was because there was criticism that the prefectural government had placed higher value on nation-wide companies than locally based small companies. Although knowing that no local construction company could manage such a large project, they were still expecting to receive some contracts from it. Their intention was very natural because the project was

conducted by the local government to promote local industry.

Both the prefectural and city hotel associations were expressing an objection to the center. This was because the announced plan included a first class hotel. Many local hotels were small, having less than 30 rooms. They were therefore afraid that they would lose the market once a large well-furnished hotel was constructed.

In June 1982, Hata instructed the Industrial Policy Office to begin contact with private companies. This was to obtain their professional views on the project. He urged the office to do so, because he knew that the prefectural government was not capable of making a project including large office space and a hotel materialize by itself. The office space included was really large, compared to the existing local market. The project was to construct about 30,000 m² of private office space in a city where already 30,000 m² office space was existing.

Having received the instruction, the office began contact with private companies. Various companies were interviewed, including real estate companies, steel companies, and general contractors. Although general contractors expressed positive opinions, other companies were generally negative about the project. Real estate companies were especially negative, reflecting a dull business condition after the oil shocks. The economy was still dull in Japan at that time. The effective economic growth rate was 3.5% in 1982, 2% lower than that in 1979.

Table 3-1: The Effective Economic Growth Rates of Japan

Year	1975	1976	1977	1978	1979	1980	1981	1982
Growth Rate (%)	4.0	4.0	4.8	5.1	5.5	3.2	3.2	3.5

Source: The Agency of Economic Planning

In September 1982, the prefectural government adopted the "You and I Plan," a plan to establish 5 core cities in the prefecture. The plan was named after the first letters of each core city, namely Yono, Omiya, Urawa, Ageo, and Ina. The plan was intended to create self-sufficient cities in which people could work, shop, and play without going out of the city. The Industrial and Cultural Center became a leading project of the plan, because it would provide a place to work, rest, and enjoy for local residents.

In October 1982, the prefectural government began to officially contact the city government concerning the site. Before this, the city government vaguely knew of the project but did not exactly know what the prefectural government intended for the site. The city government basically agreed with the plan. This was partially because the city government was busy conducting the land readjustment Phase I project, which was to improve the area just west of the station. The city government also considered that the ultimate purpose of the land readjustment project could be achieved even by the prefectural plan, because the readjustment project was to reduce the gap between the east and west sides of the station. The center was expected to draw people to the west gate area, thus reducing the gap between the two sides. In accepting the prefectural government's plan, the city government set several conditions: a large all-purpose hall and bike-parking space should be constructed in the site, and a pedestrian deck should be constructed to connect the center and the station.

In March 1983, Hata decided that the project should be completed by 1988. The schedule was very tight. Although many matters were left undetermined, the project had to be done in five years. The due date was determined to be 1988 because a governor election was planned that year. Although the election of 1980 resulted in an easy victory,

Hata expected that the coming election would be hard. He therefore wanted to be well prepared not only for the next election but also for one after the next.

4. Shaping the Idea of Project Competition

The project became more and more concrete after the prefectural government adopted the Construction Plan of the Industrial and Cultural Center in May 1983. This plan described the basic conditions that the center would assume. In this plan, private office space was officially determined to be for business administration, space which the prefecture was significantly lacking in. The hotel was required to be first class, because the prefecture did not have such hotels at all. Public office space was to be dedicated to services for local residents that would be conducted face to face. About 28.4 billion yen (US\$ 142 million) was estimated as necessary to construct the center with facilities as specified in Table 3-2.

Table 3-2: The Construction Plan of the Industrial and Cultural Center

Use	Floor Area	
Office Tower	72,500 m ²	Public Office: 19,500 m ²
		Private Office: 20,000 m ²
		Hotel: 20,000 m ²
		Retail: 5,000 m ²
		Others: 8,000 m ²
Hall Building	11,500 m ²	
Parking Space	17,500 m ²	500 spaces
Total	101,500 m ²	

The prefectural government considered that fairness would be the most important

issue to lead a project competition to success. If bids could be accepted, it was easier for the prefectural government to maintain fairness because a bid could be an unbiased criterion in the selection. In the case of a project competition, however, the selection of the best proposal could be subjective. This was because many aspects, including non-numerical factors, had to be compared. To solve this problem, the prefectural government established three principles in conducting a competition; (1) to establish an authoritative competition jury that consisted of Japan's leading authorities, (2) to make a selection process as open as possible, and (3) to set up clear criteria in advance to evaluate proposals.

The prefectural government asked Eika Takayama, Professor Emeritus of Tokyo University, to chair the competition jury. Takayama was one of the leading authorities on architecture and urban planning in Japan. He was famous for having designed the Komazawa Olympic Park for the Tokyo Olympic Games. If Takayama chaired the jury, it would be a great step for the prefectural government to satisfy one of the three principles, because it would establish a jury of great authority.

Takayama accepted the offer, contingent on the following condition: he would select all jury members and secretariat staff of the project competition. He might have a clear view of how the jury would work. What he wanted was to have a few capable persons as jury members to make the jury effective.

In August 1983, the competition jury was established, with Takayama as the chair. The members were Mitsuhide Sawada, Chair of Japan Architectural Center, Shigeru Itoh, Professor of Tokyo University, and Akio Sekine, Deputy Governor of Saitama Prefecture. Japan Research Institute for Social Development, one of Japan's most experienced urban

planning research institutes, was nominated as the secretariat.

The jury had to solve many difficult problems. This was because public organizations in Japan had never purchased a completed building nor managed a building with a private company. They had always placed a construction order to have a building. They had also managed buildings alone without any private company. Further, they had never held a project competition. Competitions previously held were architectural competitions, which decided only architectural design. A project competition, however, would be required to consider a whole process of the project, including design, construction, and management. The prefectural government, therefore, had to take many aspects into consideration in forming a competition.

The jury first clarified issues to be considered, and determined that it would make sure of the basic conditions that the prefectural government had to satisfy for the competition, make the competition terms, and select the best of the proposals submitted.

The jury had over 40 meetings in the following 7 months. The prefectural government established three inter-departmental committees to assist the jury to set up the competition scheme.

The jury carefully conducted feasibility studies. This was one of the important services, the jury decided, for the project. The jury was especially interested in the financial feasibility, for many private companies had expressed negative opinions on the project. The jury carefully examined the feasibility by changing various financial factors, such as construction cost, rent, vacancy rate, and rentable floor rate, in order to obtain a reliable pro forma. Through this work, it became confident that certain industries would be interested in promoting this project, even if real estate companies would not be

interested. Takayama was thinking that the Industrial and Cultural Center would be feasible only if two kinds of companies were involved in the project. He thought that real estate companies were not needed in this project, because the government would prepare the site. What would be needed were general contractors and financial institutions.

After conducting studies on various aspects including site boundary, traffic circulation, and financial feasibility, the jury established the competition terms. It prescribed various requirements that every proposal had to satisfy. For example, it required that the office tower must be over 30-stories to make it visible from distant points. A hotel was recommended to be in the office tower, although this was not compulsory. A hall building must include one large hall and one small hall. The large hall must have at least 2,500 seats, and the small hall must have at least 500 seats. Construction costs of the hall building must not exceed 6 billion yen (US\$ 30 million). Although the basic idea had not changed from the Construction Plan of the Industrial and Cultural Center of 1983, some minor changes were made. For example, public office space and parking space became slightly smaller than those in the construction plan of 1983.

In the competition terms, the prefectural government promised to private developers that it would prepare the site by the time construction work would begin. Simultaneously, however, the prefectural government asked developers to do several things for the project. For example, it wanted developers to solve all neighborhood-related problems, such as sunshine reduction, wind damage, and electric wave jamming. It also wanted them to construct a pedestrian deck at their own cost for the city.

Table 3-3: Basic Conditions Prescribed in the Competition Terms

Use	Site Area	Floor Area
Office Tower	7,584 m ²	Public Portion: Office: about 12,000 m ² (net)
		Private Portion: Office: over 20,000 m ² (gross) Hotel: over 20,000 m ² (gross) Retail: about 5,000 m ² (gross)
Hall Building	6,000 m ²	
Park	6,746 m ²	
Bus Depot	2,000 m ²	
Parking Space		260 spaces
Total	22,330 m ²	

Since the project would require experiences in various fields, the competition terms prepared a pre-qualification procedure. Both the jury and prefectural government did not believe that they could confirm developer's capability without such procedures. They also thought that no single private company could complete this kind of project alone, and therefore asked developers to form a group of private companies before applying for the competition. Each group was required to include:

- (1) a company that had managed over 100,000 m² rental space, and
- (2) a company that had constructed an over 30-story building.

No competition had prescribed such a requirement in Japan before.

The jury made a suggestion to the prefectural government concerning the form of land title to be transferred. The jury made such a suggestion because it realized this matter important as it boiled down contents of the competition terms. The prefectural

government had not determined whether it would sell or lease the land to a developer yet. If it sold the land, the prefectural government would save much construction costs, which was an attractive prospect because the prefectural budget was not so wealthy. The jury, however, advised to lease the land for the following reasons. First, by keeping the ownership, the land and building uses would be secured even in the future. Second, by keeping the ownership, the prefectural government might be able to enjoy land appreciation. Omiya was growing. Several large developments were under evaluation, besides this project. The land was therefore expected to appreciate significantly in the future. On the other hand, if it sold the land, such a transaction might accelerate the land appreciation of the surrounding area. As a matter of fact, the national government had significantly increased the land price by selling its land at high prices, and raised criticisms. Takayama was afraid of triggering extraordinary land appreciation, and therefore advised the prefectural government to lease the land. He further advised to set the reference range of the land price. By doing so, he saw that both the public purpose and private incentives would be well balanced.

The prefectural government was very anxious about whether private companies would make any proposals. Actually, many private developers were still negative about the project. It was very risky for private developers to construct a highrise and a first class hotel in Omiya, in which the population was only about 360,000. The economic condition was also very unfavorable at that time. Furthermore, it was disclosed that another first class hotel was under evaluation in the city. Two first class hotels seemed too much for Omiya. Worse, the hotel was to be built next to the Industrial and Cultural Center. A serious oversupply was expected, and local hotel associations were planning

to raise a strong objection against these hotels.

Having heard negative business opinions, the prefectural government slightly changed the competition terms. It allowed private developers to choose a form of land title from several options, as they could run business. The titles allowed were ownership and two kinds of lease titles. An ownership was important for real estate companies because they usually borrowed money on the security of the ownership to the land.

Before announcing the competition terms, the jury made the contents as clear as possible. It made the following issues especially clear: what the prefectural government wanted to have in the project, what would be compared in the competition, and what kinds of companies had to be in a group to apply for the competition.

In February 1984, Hata ordered prefectural officials to designate the developer in a hurry. He had a governor election that July.

5. Executing the Project Competition

In March 1984, the competition terms were officially announced. The announcement created a wide repercussion, because the prefectural government allowed private companies to design the project as they liked, as long as the requirements were satisfied. No competition in Japan had ever allowed developers for such a broad liberty. No competition in Japan had ever asked developers for such broad plans ranging from design to management. Confronted with unexperienced tasks, however, private developers had to figure out how to deal with the requirements. Proposals were due coming August, only five months later.

After the announcement, 63 companies visited the prefectural government to obtain

the competition terms. Among them, 26 were general contractors, 6 were real estate companies, 5 were banks, and 3 were insurance companies. When the prefectural government held an explanation meeting for the competition terms, however, only 41 companies attended it, 22 less than those who came for the competition terms. Among them, 18 were general contractors, 5 were real estate companies, 2 were banks, and 2 were insurance companies. While general contractors were still interested in the project, other industries seemed to be losing interest.

In May 1984, applications for pre-qualification were accepted. Only three groups submitted the application. These groups included the NLI/Fujita group, the Dai-ichi Life Insurance Company group, and the Nomura Real Estate Company group. Two of the three were headed by an insurance company, and the other was headed by a real estate company. Being pre-qualified did not require of companies anything. They did not have to make any proposal, if they did not want to do so. They were also allowed to reduce private office space to 16,000 m², although the prefectural government strongly desired to have over 20,000 m² of private office space. Most companies, however, did not want to be even pre-qualified for the project, deciding that Omiya did not have the potential to find enough tenants to fill the large office space required. Only three groups did express their intent to make a proposal for the center.

Each group assigned each company's role in a similar way. The first role was to finance the project and own the center with the prefectural government. Insurance companies and a real estate company were expected to assume this role. The next role was to construct the center. General contractors were assumed to take this role. The last role was to architecturally design the center. Since various uses had to be beautifully put

in a limited space, a design firm was included in each group.

All of the three groups had enough experiences and were pre-qualified for the project. All of companies included were based in Japan. NLI/Fujita group consisted of Nippon Life Insurance Company, Japan's largest insurance company, Fujita Corporation, a middle class general contractor, and Nikken Sekkei Corporation, a top class design firm in Japan. NLI was the largest insurance company not only in Japan but also in the world, holding the total assets of 24,881 billion yen (US\$ 157.477 billion).^{Footnote 1} Fujita was the only middle class general contractor that expressed the intent to make a proposal.

Dai-ichi Life group consisted of Japan's second largest insurance company, 4 of Japan's top class general contractors, and a top class design firm. There were 5 very large general contractors in Japan, and 4 of them were included in this group, namely Kajima, Shimizu, Taisei, and Takenaka.

Nomura group included a real estate company, a general contractor, and a design firm. Nomura Real Estate Company was a subsidiary of Nomura Security Company, the largest security company in Japan, and seemed to have a strong financial capability. The general contractor included was Obayashi, the other of the 5 largest general contractors in Japan. These three groups had to make a proposal in three months. They also had to find a hotel company that would operate a first class hotel in the center.

In July 1984, a governor election was held. The last two elections were easy for Hata, since the Liberal Democratic Party (LDP), which had long led Japan's politics with the absolute majority in the Diet, did not put its own candidate. Hata was already one

¹ The total asset was as of March 30, 1990. The exchange rate used is 158.00 yen = US\$ 1.00, the rate prevailing on the same day.

of well experienced governors in Japan, having served for 12 years. He also served as a director of the national governor council one year before.

This time, nevertheless, Hata was expected to have hard time. He was 73 years old, not young anymore. Further, the LDP was planning to challenge him, selecting a former deputy governor as its own candidate. Dominating the local assembly by 55 over 94, the LDP really wanted to take back the governor's seat at any cost. Having served as a deputy governor, the LDP's candidate knew much about the prefectural administration, and strongly disputed Hata's long administration. The election resulted in Hata's victory again, with 1,011,198 votes for Hata and 644,587 for the LDP's. Compared to the last two elections, however, the LDP made a great progress for the governor's seat.

In August 1984, three proposals were submitted for the center. Each proposal was well considered, even though the schedule was very tight. There had been only five months from the announcement of the competition terms to the submission of proposals. They made all of the plans, the drawings, and the miniature model required in these five months.

NLI/Fujita proposed to construct a hotel beside an office tower (Figure 3-1), even though the competition terms strongly recommended to have both hotel and office spaces in the same building. As a result, its office tower became low although the prefectural government wanted a high structure.

Dai-ichi Life proposed a high office tower with a hotel on the top (Figure 3-2). With a hotel atrium on the top, the office tower was expected to look like a lighthouse at night. This proposal was very attractive because the center was planned to create a

prefectural symbol. A beautiful office tower with a captivating light source on the top could be very appealing and suitable for a prefectural symbol.

Nomura proposed to put glass curtain walls on an office tower. Glass could make a striking building without creating much oppressing feeling to neighbors. It might, however, bother neighbors with light reflections. The office space was the smallest of the three, reflecting its pessimistic view for tenant recruitment. Nomura seemed pessimistic for it proposed only 18,756 m² of private office space, while the other two proposed about 30,000 m², 1.6 times larger. This difference created an approximately 15,000 m² difference in total office space.

Table 3-5: Comparison of the Proposals

	NLI/Fujita	Dai-ichi Life	Nomura
Maximum Height	137.1 m (31F)	150.0 m (34F)	143.2 m (38F)
Floor Area (m ²)	104,539	105,556	91,180
Office Tower	89,263	90,456	76,174
Hall	15,276	15,100	15,006
Total Costs (million yen)	35,839	31,433	26,920
Office Tower	26,075	22,660	18,948
Hall	5,980	5,969	5,961
Others	3,784	2,804	2,011
Land Lease Title Fee: (1)	4,756	4,597	4,109
Public Portion Selling Price: (2)	12,049	12,371	12,513
Amount That the Prefecture Would Have to Pay to the Developer (million yen): (2)-(1)	7,293	7,774	8,404

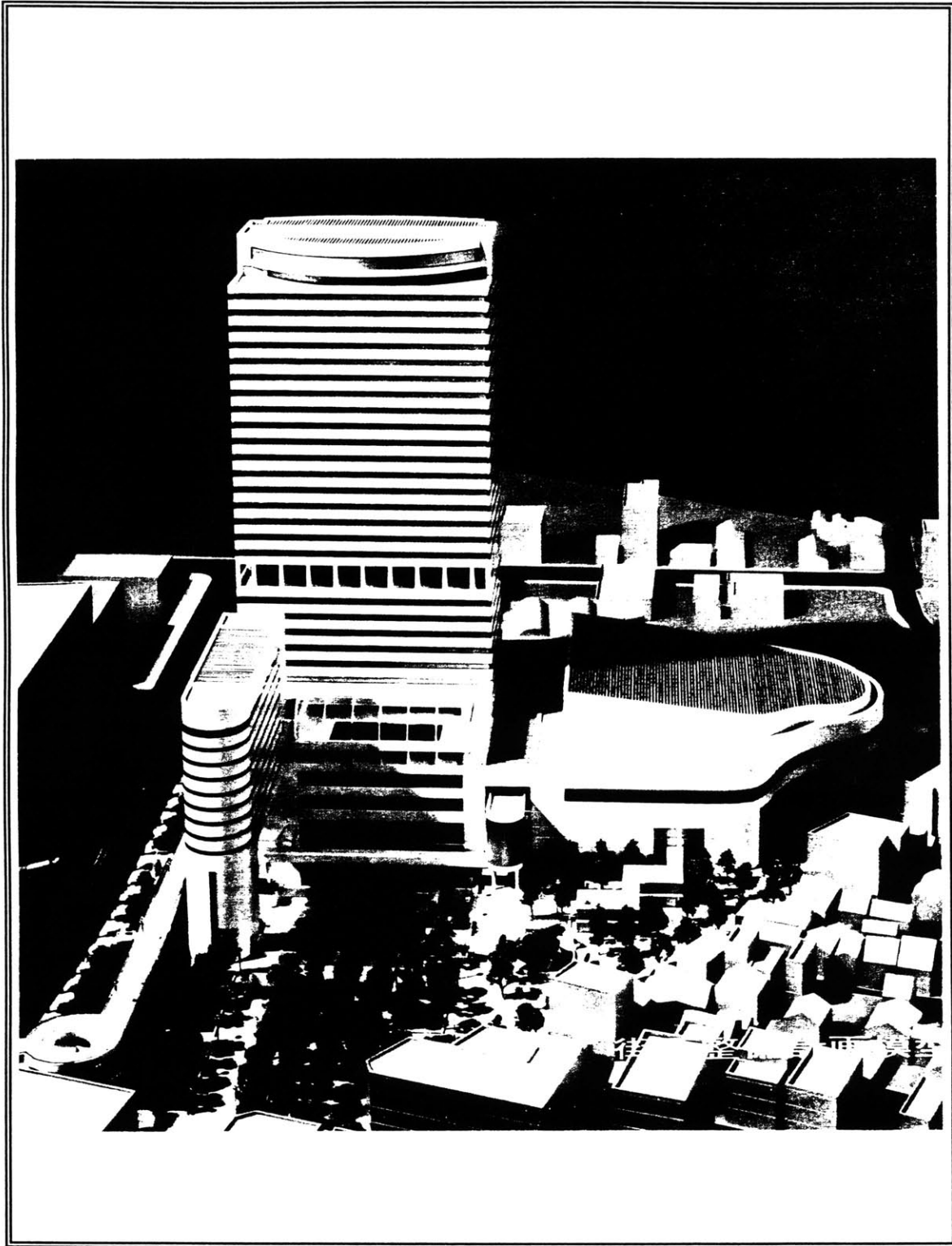
Source: The Prefecture of Saitama

Since the prefectural government suggested that the land price would range from

1,034,000 to 1,095,000 yen/m², the unit price of the land lease title was very similar among the three proposals. However, the total amount of the land lease title fee was slightly different among them, because the land area to be leased was different. NLI/Fujita proposed the highest fee, intending to obtain 82% of the floor area in the office tower. Nomura proposed the lowest because it planned to use only 71% of the floor area, selling the rest to the prefectural government.

Total construction costs significantly varied among them. NLI/Fujita's proposal was about 9 billion yen (US\$ 45 million) higher than Nomura's. This was because both total floor area and unit construction cost were higher in NLI/Fujita's proposal than in Nomura's. While proposing the highest total construction costs, NLI/Fujita offered the lowest amount for the prefectural government to be paid. This was because the public portion to be sold to the prefectural government was the smallest of the three.

Figure 3-1: Proposal of NLI/Fujita Group



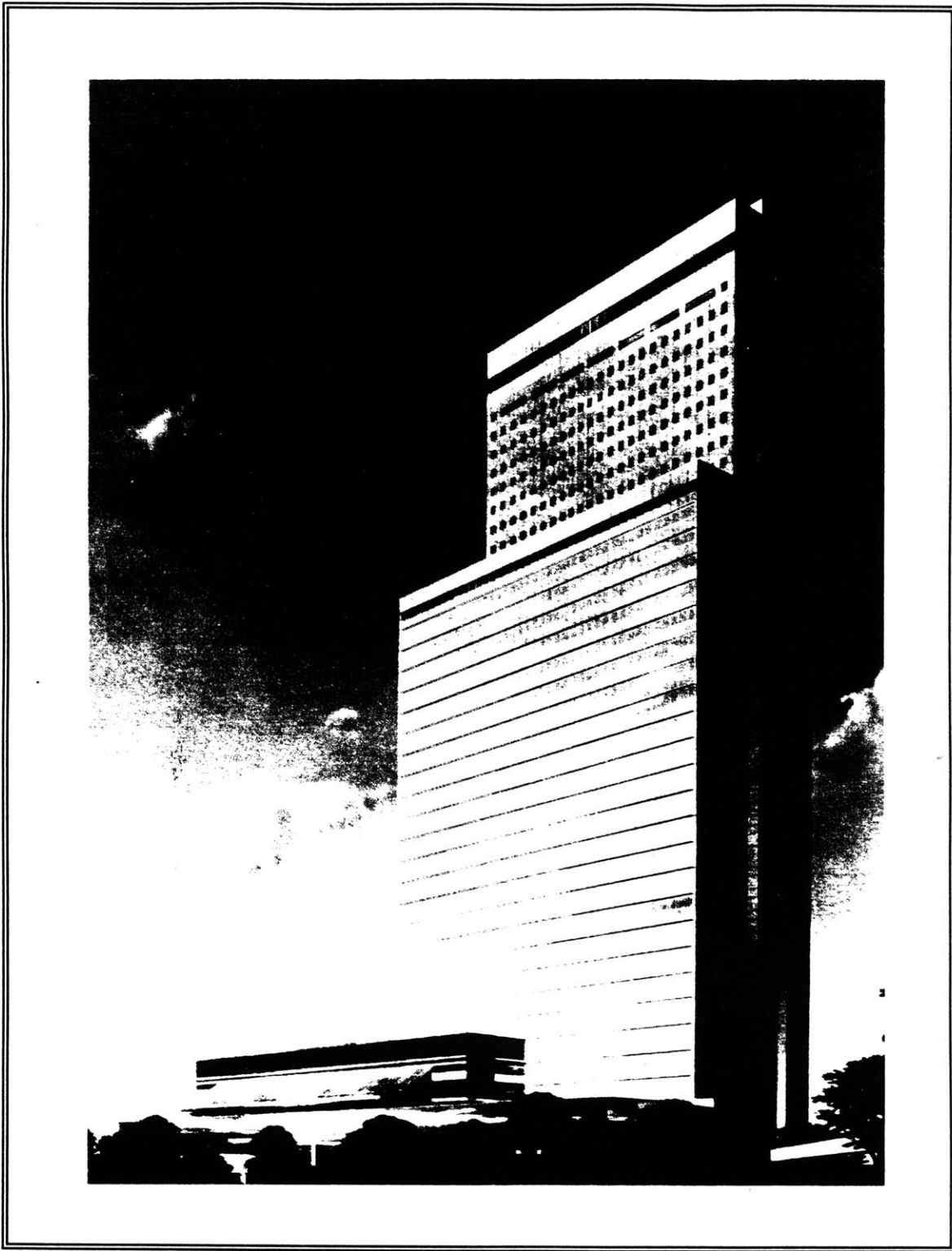
Main Developer:	Nippon Life Insurance Company
General Contractor:	Fujita Corporation
Architect:	Nikken Sekkei Corporation

Figure 3-2: Proposal of Dai-ichi Life Group



Main Developer:	Dai-ichi Life Insurance Company
General Contractors:	Shimizu Corporation Kajima Corporation Takenaka Engineering Corporation Taisei Corporation
Architect:	Nihon Sekkei Corporation

Figure 3-3: Proposal of Nomura Group



Main Developer:	Nomura Real Estate Company
General Contractor:	Obayashi Corporation
Architect:	Shin-ichi Okada and Associates

In August 1984, about the same time when each group submitted a proposal, the competition jury expanded to be able to judge issues in various fields. The jury examined each proposal from the following four aspects: site plan, building design, management plan, and public burden. It also evaluated how symbolic the center would be from the architectural point of view and how feasibly the center could be constructed according to the schedule. The jury had to recommend only one proposal out of the three by November 1984, 3 months later.

Table 3-4: The Jury Members as of August 1984

	Name	Title
Chair	Eika Takayama	Professor Emeritus, Tokyo University
	Mitsuhide Sawada	Chair, Japan Architectural Center
	Ken-ichi Azuma	Vice President, New Center for Urban Development
	Yoshiya Uchida	Professor, Tokyo University
	Shigeru Itoh	Professor, Tokyo University
	Akio Sekine	Deputy Governor, Saitama Prefecture
	Akio Ohyama	Deputy Mayor, Omiya City

Before the jury selected a proposal to be recommended, several problems took place. One was Fujita's discount offer after the submission of a proposal. In the NLI/Fujita group, Fujita was in charge of the buildings to be sold to the prefectural government. After the submission of a proposal, Fujita made an offer to lower the sales price. The competition terms had not explicitly said no discounting was allowed. Rather, the prefectural government expected that sales price would be reduced to some extent by each company's business effort. The jury, however, knew that it had to prudently handle

this offer, because the acceptance of the offer might cause suspicion with regard to the fairness in the judgement process.

Another problem was the submission of an improved proposal after the deadline. After the submission of proposals, the jury held several hearings to further understand each proposal. One group resubmitted an improved proposal, for it found a major disadvantage while responding to questions at the hearings. An improved plan was not necessarily problematic because it could more properly reflect what the prefectural government intended by the center. The jury, however, decided to carefully deal with this too, in order to maintain the dignity of the judgement.

After careful consideration, the jury decided to handle these matters as if they did not take place. More exactly, if NLI/Fujita was selected, it decided to use the amount discounted in order to improve the site and surrounding area, rather than just to reduce public burden. This was decided not to raise any suspicion on the selection process concerning the discount offer. It also decided to consider the improved plan as a possible alternative to the original proposal. These decisions were equivalent to say that the jury established the fundamental principle of comparison. It decided to compare the original proposals submitted by the original date in order to maintain the fairness in the competition.

To make a proposal, each group spent about 20 - 30 million yen (US\$ 100,000 - 150,000) even without personnel expenses. Total costs were estimated to be several times larger. One of the reasons why such large costs were incurred was that the competition terms required to submit many 1/200 scale plans. Since the prefectural government was to purchase a part of buildings, it had to make sure that asking prices made by developers

were reasonable, even before deciding on the developer. However, 1/200 plans imposed a heavy burden to private developers. They had to spend extraordinary time, personnel, and money on the plans. Further, once they lost the competition, they had to lose everything devoted to a proposal.

6. Designation of the Developer

In November 1984, NLI/Fujita's proposal was selected as the best and recommended to the prefectural government. The prefectural government, in turn, designated NLI/Fujita as the developer candidate contingent on certain conditions. NLI/Fujita was designated not as the developer but as the candidate because its proposal still needed some amendments to better suit the public objectives.

Established in 1889, NLI was Japan's premier and largest life insurance company. It had invested in real estate, considering it to be one of good asset management tools. Real estate was an important asset component for NLI, because it provided a stable income source, acted as an inflation hedge, and was less exposed to price fluctuation risk. In view of these benefits, NLI had increased real properties dramatically. In 1975, it owned 111 rental buildings. This number increased by 143% to 270 by 1984. The recent increase was especially remarkable, with over 20 buildings completed every year. The following two factors also helped NLI increase real properties. First, NLI's premium incomes had significantly grown, thus increasing its total assets. The total assets grew from 2,931 billion yen in 1975 to 10,731 billion yen in 1984, 3.7 times larger in a decade. To manage increased assets, it invested more in real properties. Second, NLI intended to strengthen the financial position by accumulating assets that would rapidly appreciate.

Land in Japan had almost always appreciated, and therefore was considered to be a good tool to accumulate unrealized profits.

Although its main business was life insurance, NLI was also an experienced real estate developer. It had conducted various kinds of development, including office, hotel, shopping mall, theater, and residential developments. It held about 200 real estate staff, including registered architects and tenant recruiters. It also had a building management subsidiary to manage a large number of buildings it rented. By using premium incomes instead of borrowing money, it could conduct projects that other real estate companies could not deal with for the profitability reason.

There was, however, a controversy at NLI about whether to make a proposal for the Industrial and Cultural Center. NLI did not worry about the skill to construct the center at all. It worried about whether it could collect enough tenants to maintain proper returns on the project. Several conditions helped NLI to make a proposal. First, it could find a well-known hotel company that was interested in opening a branch in Omiya. NLI had a broad sales network, which worked not only for insurance sales but also for NLI's other transactions such as loan furnishing and security dealings. Through this network, NLI knew that the Palace Hotel Company was interested in the project. Second, two new super-express lines, opened some years before, brought a great growth opportunity to Omiya. Both Tohoku Super-Express Line, opened in June 1982, and Joetsu Super-Express Line, opened in November 1982, had Omiya as the starting station. This enabled Omiya to establish itself as an entrance to the Tokyo metropolitan area. In general, cities with super-express-line stations had prospered very rapidly. NLI therefore considered that Omiya had the potential to be a large business core. At that time, however, many

companies were busy restructuring their businesses because of the yen's rapid appreciation after the Plaza Agreement in September 1985.

Fujita was a middle class general contractor in Japan. However, it had deep roots in Omiya, especially in the west gate area. Since its redevelopment plan was adopted for the land readjustment Phase I area in May 1975, Fujita had fostered a good relationship with the local community. For this reason, it knew vaguely about the project from the late 1970's through its local network. Interested in the west gate area for a long time, it had an idea of how to develop the site. In other words, Fujita was well prepared for the project, having its own idea of the site and being familiar with local affairs. It considered that the punctuality of the construction schedule was the foremost condition. It therefore applied high technology to avoid objections from local residents, thus making the construction schedule as certain as possible.

NLI/Fujita's proposal was considered the best for the following reasons: First, NLI/Fujita paid much attention on how to harmonize the center with the surrounding area. It was hard to build a highrise in a densely built residential area. The proposal, however, handled this problem well by putting an office tower on the south edge of the site, thus reducing the shaded area. The hall entrance faced toward retail shops across the north edge, intended to pour a pedestrian flow to them after events. Also, careful consideration was made for the physical shape of the center to make it as friendly as possible. A hall building looked very like a grand piano. Curves were frequently employed to reduce massive impression of the center. Second, NLI/Fujita well considered for neighborhood-related problems. It reduced the height of the office tower, because it found a broadcasting beam passing over the site. If the tower had been 10 meter higher, a serious

jamming problem would have occurred. Therefore, it separated the hotel from the office tower. This decision was very important to make sure that the construction work would finish according to the schedule. Third, NLI/Fujita proposed the lowest public burden. Although the total construction cost was the highest of the three, the amount the prefectural government had to pay was the lowest. The proposal NLI/Fujita made was not attractive enough to create a prefectural symbol. It seemed to be, however, very sound and feasible to the prefectural government.

To be designated as the official developer, NLI/Fujita had to amend the proposal in the following ways: the top of the office tower should be broadened and dedicated to the public; the number of hotel rooms should be reduced to get support from local hotels; inside of the hall building should be slightly redesigned; and the appearance of the 14th floor, which contained machine rooms, should be redesigned aesthetically. These amendments cost NLI/Fujita as much as 1,774 million yen (US\$ 8,870,000) in total.

Concluding a contract in May 1985, the prefectural government officially designated NLI/Fujita as the developer. In the contract, the prefectural government promised the developer to prepare the site at its own expense. In turn, the developer promised to take care of all affairs that would be raised by local residents and finish the construction work by December 1987. No delay was allowed. Also, Fujita agreed to preferentially employ local companies for the construction work, and NLI agreed to well consider for local companies when they expressed their wish to enter the office tower as a tenant. NLI also agreed to help the prefectural government manage the public portion of the center. They, however, postponed to make an agreement on how to manage outdoor facilities such as the park, bus depot, and pedestrian deck in this contract.

7. Site Preparation and Other Preparatory Works

Site preparation was the prefectural government's responsibility. Although the site was as large as 22,220 m², it seemed not so difficult to assemble the site because only four landowners owned it. Even better, most of them were public or semi-public organizations. The prefectural government owned the chamber-of-commerce site. It acquired the site from JNR through the municipal government to construct a building for the chamber of commerce in the late 1950's. The municipal government owned a school site, the largest in the project site. JNR, a semi-public railway company, owned shrine and dormitory sites. JNR owned the shrine to pray for transportation safety and dormitories for its employees. Also, one private company owned a site for a bank building.

The land readjustment project had been executed in the area since 1982.^{Footnote 2} This project had been conducted by the city government to reduce the gap between the east and west sides of the station. In January 1982, the Sakuragi Elementary School, which had dominated the site, moved to a nearby area. Then, many bars moved from the Phase I area to this site to clear the Phase I area for construction work. In October 1982, the prefectural government inquired the city government if the site was available for the center. Having obtained a positive response, the prefectural government concluded an agreement with the city government in May 1983. By this agreement, the site was officially determined to be used for the Industrial and Cultural Center, and the prefectural government became responsible for the site preparation.

² Although the land rearrangement project was originally decided in 1963, the execution began in 1982.

After NLI/Fujita became the official developer, the project progressed from the planning stage to the construction stage. First, the prefectural government removed the stall-like temporary structures, which had been dedicated to bars, in order to prepare the site. There were 81 such bars in the site. They were removed from the original place for the land readjustment project. Forced to move once before, they were unwilling to move again. They were not favorable to public organizations in general, because a public organization made them move to this site. To them, public organizations seemed to consider that they could remove them at their discretion. Prefectural officials had to visit them almost every night to obtain their consents to move again.

In January 1985, the competition jury converted to the construction work supervisory committee. At first, the jury was planned to be dissolved. However, some kind of organization was needed to mediate controversies that were expected to occur between the prefectural government and developer. The supervisory committee, consisting of the same members as the jury, came to take this responsibility. Its responsibility further included to supervise every issue on the project, including written agreements, change orders, and establishment of a property management organization.

In June 1985, NLI/Fujita started execution drawings. One month before, it had concluded an agreement with the prefectural government on major architectural changes, and was required to finish the drawings by the end of that year in order to start construction work at the beginning of the next year. When the execution drawings were completed in November 1985, the exact price of the public portion was determined. Until this time, the price was still approximate though 1/200 drawings had been prepared. The price agreed was slightly higher than the appropriate price, with 12,371 million yen

agreed to 12,049 million yen estimated. This increase was caused mainly by an increase in the public portion area in the office tower.

In July 1985, the shrine was removed to another location. The chamber-of-commerce building was also demolished in September 1985, and all durable structures were dismantled off the site. What left in the site were shabby bars installed in temporary structures.

In October 1985, the prefectural government agreed with the municipal government that it would purchase the necessary land in the site from the city. At first, the prefectural government intended to have it for nothing. The city government, however, did not think it reasonable and asked the prefectural government to purchase it at a fair price.

The time schedule was very tight, and the prefectural government did not spare any help to get the project done in time. One example was that it helped the developer obtain necessary permits. This kind of practice was really unusual. The developer had to get various building permits from the city government to construct a complex with office, hall, and hotel uses. The process to get permits was very complicated with many departments concerned. Not only it was complicated, but also it took much time, which could have prevented completion of the project by the due date. The prefectural government therefore called meetings, inviting both the city government and developer, in order to make the permit process effective and smooth.

8. Construction-Related Works

In January 1986, the construction work began. Every temporary structure had

been removed by this time, for the last lease contracts had expired in December 1985. The construction period was 27 months, which was surprisingly short. Further, the last 3 months had to be dedicated to interior finish work. The main structure of the center had to be completed in 24 months, although it usually took over 30 months to construct an over 30-story building. Moreover, the center contained several factors which might have prolonged the construction work. The office tower required deep foundations to reach competent soil 51 meters beneath. It also required deep excavation for the 4-story substructure. Furthermore, large hall and hotel buildings had to be constructed simultaneously. Extraordinary efforts had to be made to finish the construction work by the due date.

In the same month, the prefectural government concluded a land lease agreement with NLI, allowing NLI to use the land for 60 years. In this agreement, the prefectural government showed generosity to the developer. It agreed that no rent had to be paid during the construction period. It also agreed that the land lease title fee should appreciate by 7% while Omiya's commercial district appreciated by about 20% on average.^{Footnote 3}

The construction schedule was so tight that a new construction method had to be applied to complete the center as scheduled. This was the main reason why the up-down construction method was applied to this project.^{Footnote 4} The up-down construction method

³ Since the competition terms required to propose the land lease title fee as of August 1984, some adjustments had to be made to consider the 17 month difference from the competition to the agreement.

⁴ Up-down construction initially involves the installation of the substructure's wall, column, and foundation system, prior to excavation. Then, the substructure's floor slabs are used as the construction cross-lot braces as well as the permanent braces, as they are installed according to the excavation work. Except for extremely deep excavations in excess of seven levels, it usually

allowed builders to execute substructure and superstructure simultaneously, thus reducing the overall construction period. It was, however, risky to employ this method to this project, because this method had never been applied to a highrise. There were serious concerns regarding whether it was safe if an earthquake occurred during the construction work; Japan was known as a country of earthquakes.

Nevertheless, Fujita had to employ the up-down construction method in order to complete the project by the due date. The construction period was expected to become 6 months shorter with this method, though it was expected to be over 30 months with the conventional method. The method had several more benefits besides the time saving effect. It could reduce the number of dump-cars coming to the area everyday, because it prolonged and averaged excavation activity. It could also reduce sound-related problems because floor slabs could keep the noise from escaping. Further, it allowed for a steady construction progress regardless of weather conditions, for a floor slab would work as a roof.

There was another experiment Fujita made to reduce the neighborhood-related problems. Fujita put ferrite tiles on the south wall of the office tower to reduce electric wave jamming. This experiment was also risky because the material had never been used for such a large area. If the tiles did not work as expected, Fujita had to lose about 1 billion yen (US\$ 5 million) spent on them. Further, Fujita might have needed to pay compensation to those who sustained a jamming problem. Fortunately, the tiles worked

takes longer to construct the substructure by the up-down construction method than by the conventional method; however, the overall construction schedule can be shorter due to the earlier start of the superstructure.

This method was employed at the Olympia Center project in Chicago in the early 1980's and the Rowes Wharf project in Boston in the middle 1980's.

very well. A survey conducted afterwards proved that the jammed area was 86% smaller than expected. While it was expected to be about 2.9 km² without ferrite tiles, the area that actually sustained the problem was 0.4 km².

During the construction, the schedule became much tighter. This was because the city government made a construction order for the park and underground bike parking. At first, the government intended to construct them later. However, it decided to construct them together with the main buildings in order to create the united atmosphere in the center. The due date was the same, March 1988. The construction work began in November 1986, 11 months later than the main buildings.

As indicated several times, the project had to be supported by local residents to get completed by the due date. Around the site, another two large developments were progressing about the same time. The municipal government was constructing the 18-story Omiya Jack Information Center on the north edge of the station. In the land readjustment Phase I area, the landowners were cooperatively constructing the 13-story Omiya Sky Building to create a retail center. Because of these three large developments, the Industrial and Cultural Center included, construction-related problems were expected to be very complex. Local residents therefore wanted to have one definite organization that could deal with every matter related to these developments.

In January 1986, local residents established the Omiya Station West Gate Area Big Project Council to deal with such problems. Although local residents took the initiative, various organizations sent delegates to the council, including the prefectural government, the city government, and general contractors. Since it was hard for local residents to identify which project caused a specific problem, this council was beneficial to them very

much. What they had to do was just to speak to the council about any problems they worried about.

Many problems were discussed in the council. Construction-related vehicles were one of such problems. Although roads were not broad, about 100 dump-cars came to the area everyday. Electric wave jamming was also considered serious. Interfered by the three tall buildings, the jammed area was expected to be much complicated. Local residents especially worried about this problem, because they had already experienced jamming problems when the station expanded for the new super-express lines. The council tried to take countermeasures before any specific problem took place. It laid TV cables for about 3,500 households before the superstructures appeared in the sky. The establishment of the council was beneficial not only to local residents but also to the prefectural government and developer. The council helped local residents remain supportive to the project, one of the important factors to complete the center in time.

In March 1986, the prefectural government concluded the final contract with NLI/Fujita on how to transfer the buildings. Financing was an important issue for the prefectural government, because the sales price was too high to pay at once. It wanted to issue local bonds and therefore asked the Ministry of Home Affairs for it. Before 1985, the ministry did not think that the bond issuance was appropriate. This was because it felt that a *Minkatsu* project should be done without financial assistance of the national government. The issuance of local bonds was national government's assistance because most of bonds issued by local governments would be bought by the national government or its related funds at a low interest rate. The prefectural government kept negotiating with the ministry because it was hard to pay such a large amount at once,

even though a certain amount could be saved by selling the land lease title. After a series of negotiations, the ministry approved the bond issuance only for the hall building. This was because the hall building would be owned and managed by the prefectural government only. The hall building would be constructed as if it was constructed in the conventional way, where the prefectural government gave a contract order and made installment payments.

The consent from local hotel associations was another important issue. The developer and the Palace Hotel Company went through meetings with the hotel associations until the final agreement was made in December 1986. This was because they had to obtain approval from the local hotel association in order to open a large hotel by law. Since most local hotels were small and focused on the specific market, their foremost concern was to maintain their hold over the market. They therefore wanted to make sure of the following issues in the agreement: the hotel would remain the first class status even in the future; the hotel would set appropriate rates for a first class hotel; the hotel would not make any daytime discounts, and the hotel would reduce the number of rooms from 215 to 209. The hotel associations also asked to have an information center in the hotel to advertise their affiliates.

9. Building Management

The prefectural government had to seriously consider how to manage the center because it had to manage floors of various uses, including public office space, the common area of the office building, and halls, as well as outside facilities. When the prefectural government held the competition, it had not decided how to manage the center

in detail.

In November 1985, the prefectural government conducted a survey to know how to manage the center. For this reason, questions were made to know how local residents wanted the prefectural government to manage the center. The result of the survey indicated that the prefectural government should establish a third sector organization to manage the halls rather than directly manage them. This was because event promotion and budget making could be more flexible by doing so. If the prefectural government directly managed the halls, it had to obtain assembly's approval every year, which might reduce the consistency and flexibility of the hall management. Also, a third sector organization could freely seek profits and ask for private companies' support.

In April 1986, the prefectural government established an inter-departmental committee to further the study on the hall management. Knowing that hall management would not be profitable, the committee wanted the third sector organization to be run on a self-paying basis. To achieve this end, the committee decided that the third sector organization manage both the public office space and halls. Although at least 500 million yen (US\$ 2.5 million) was expected necessary to manage the halls even without any events, it was hoped that profitable office space would compensate for unprofitable halls.

In May 1987, the Saitama Foundation for Culture and Industry was established with capital of 150 million yen (US\$ 750,000). The prefectural government contributed one third of it, and other 38 organizations, both public and private, contributed the rest. Organizations contributing included the city government, local prominent companies, and nation-wide companies. Among them, 12 were financial institutions. Hata was installed as the first president of the foundation.

In October 1987, the prefectural government established another third sector organization. The city government and NLI also joined the establishment because this organization was to manage the common area of the office tower. The capital was contributed according to the floor area each party owned. That is, the capital of 20 million yen (US\$ 100,000) was contributed 79% by NLI, 20% by the prefectural government, and 1% by the city government. Since NLI contributed the most capital, it sent the most personnel, including the president.

The prefectural government considered that the center should have a nickname to become friendly. The name "Industrial and Cultural Center" seemed too stiff to be loved by everybody. The prefectural government therefore asked local residents to make a nickname for the center and received 3,797 responses. Among them, the Omiya Sonic City was considered the best and selected as the nickname of the center in September 1986.

The construction work supervisory committee played an important role even after the designation process. It had settled many conflicts among the parties concerned. The management of the pedestrian deck was a good example. Although it was decided that NLI would construct the pedestrian deck at its own cost, how to manage it was undecided. Even after completion, a considerable cost was expected to maintain the pedestrian deck, for it had to be cleaned periodically and fixed when dilapidated. Since the city government wanted the pedestrian deck, the city government was expected to own it. However, it did not want to do so because of the high maintenance cost. Then, the matter was turned over to the supervisory committee. The supervisory committee mediated this matter as follows: the deck outside of the site should be owned and

maintained by the city government alone; and the deck within the site should be shared and maintained cooperatively by both sectors according to the floor area ratio. The supervisory committee played a role even in selecting a stage curtain designer. Both the prefectural government and developer considered the supervisory committee to be important, because they could be better convinced when a third party with a profound vision mediated a problem.

10. Tenant Recruitment

Tenant recruitment seemed to be very hard, for many companies were restructuring their businesses at that time. NLI would be happy if it could fulfil 60% of the private office space in the first year. It intended to increase the occupied floor area by 10% annually to make the entire floor occupied by the fifth year. The economic condition was, however, harder than expected. When NLI sent a questionnaire to gauge private companies' views on the project, only 10 - 20 companies out of 1,800 positively responded. Although NLI had managed about 250 rental buildings and 3,000 tenants, it predicted hard times awaiting for it in finding enough tenants for the Sonic City.

After the middle 1980's, Japan's economic condition began to show a different trend. Triggered by the relaxation of monetary control,^{Footnote 5} the economic condition turned upwards. The growth rate of the real Gross National Product rose from 2.9% (1986) through 4.9% (1987) to 5.9% (1988). About the same time, the superstructure of the Sonic City came to appear. The superstructure became taller and taller in a short

⁵ The official discount rate was lowered to 2.5% in February 1987, the lowest rate after the World War II.

time, for the up-down construction method was employed. A favorable wind began to blow for the Sonic City: the economic condition was getting better, and the appealing superstructure came to appear in the sky.

Against the pessimistic prediction, all floor areas became occupied even six months before the opening. This was surprising because NLI had expected that 60% would be occupied at most for the first year. The fact was much better. The floor areas were completely occupied well before the opening; all tenants were reliable companies.

In April 1988, the Omiya Sonic City opened. 107 private companies moved into the Sonic City as tenants. Among them, 19 were service providing companies, 18 were retail companies, 16 were real estate or construction-related companies, and 7 were financial companies. 37% of tenants were locally based. Besides these private companies, 23 public organizations entered the Sonic City, thus creating about 3,500 jobs in total in the center.

The top of the office tower was dedicated to the public as suggested by the jury. A large showroom was installed there, where anyone could enjoy a free panoramic view. If the weather permitted, Mt. Fuji, the highest mountain in Japan, could be seen from there. A great effort was made by Hata to open the showroom. He inquired Gaishi Hiraiwa, the president of Tokyo Electric Power Company (TEPCO), whether TEPCO was interested in opening a showroom in the Sonic City. Having experienced great success in opening a showroom at another place, TEPCO decided to open a showroom, although it might not generate any profits.

There seemed to be several reasons why all office space could be occupied even from the first year. First, the economic condition turned upwards after the mid 1980's.

Especially when the Sonic City opened, the real estate market was about to heat up. The strong wind was blowing in favor of the Sonic City. Second, the super-express lines that opened in 1982 considerably changed Omiya. They helped Omiya accumulate office-related businesses and become a business core. Third, the office tower was well equipped. It was equipped with many intelligent facilities. For example, it provided the digital PBX shared service to reduce tenants' communication costs. Tenants could save costs because they could make free phone calls inside the center by this service. Fourth, rental rates in Omiya were low compared to those in Tokyo. Even though the Sonic City required higher rates than the average in the area, they were still inexpensive compared to those in Tokyo.

Chapter IV

Impacts of the Omiya Sonic City

1. Impacts of Urban Development

Urban development creates various impacts on various fields. If a development is attractive to people, it invites crowds to the site and the surrounding areas, and make them enlivened. It may increase tax revenues, if it enhances the sales volume in the area or invites new companies to the area. Then, enhanced sales and invited companies may increase employment in the area.

Urban development has negative impacts, too. It may cause traffic congestion, which is serious to a poor road system as typically seen in Japan. It may also cause a security problem, because it induces unfamiliar people coming to the area even at night. Further, it may raise neighborhood land value, thus raising the level of neighbors' property taxes. Neighbors may need to bear a heavier tax burden, even though they themselves do not want the area change at all.

In this chapter, I would like to examine impacts of the Sonic City from the following four aspects: how local residents use the Sonic City; how much economic impact the Sonic City has brought to the prefecture; how the west gate area has changed; and what political impact the Sonic City has created.

2. How the Sonic City is Utilized

One way to measure the success of mixed-use development is to count how frequently people use developed facilities. In the case of a shopping mall, a development can be considered successful in a sense when it draws many people and makes them stay long at the site.

The Sonic City has drawn over 6 million people every year since the opening. In

1992, it drew 6.29 million people, the largest number after the opening. This figure was significant for a bed-town of about 360,000 residents. Further, most of the floor areas were used not as retail but as office space. Office space can generally draw less people than retail space, and therefore over 6 million people a year can be considered very successful for a development of this kind. The total number of people who visited the Sonic City has reached 31 million in five years.¹ This number indicates that about 17,000 people have visited the Sonic City each day. It is also equivalent to say that every prefectural resident, 6.6 million, has visited the site about once a year.

Table 4-1 shows that those who come to the office tower have increased, while those who come to the halls and showroom have decreased. Still, it is surprising that the showroom whose floor area is only 3,000 m² invites over 50,000 people every year. Without any competing highrise around, this showroom has offered a spectacular view and a comfortable place for leisure to the public. Reflecting the internationalization of the prefecture, the increasing number of people visit a passport center every year, which is included in the category "others."

Table 4-1: The Number of Visitors to the Sonic City

(Unit: Millions of People)

	1988	1989	1990	1991	1992	Total
All-Purpose Halls	0.88	0.75	0.72	0.70	0.76	3.81
Office Tower	3.91	4.25	4.33	4.41	4.42	21.32
Showroom	0.96	0.71	0.62	0.57	0.55	3.41
Others	0.45	0.51	0.54	0.60	0.56	2.66
Total	6.20	6.22	6.21	6.28	6.29	31.20

Source: The Prefecture of Saitama

How frequently the halls and meeting rooms have been used is another important aspect to consider impacts of the Sonic City on the prefecture. This is because the more frequently such facilities are used, the better financial performance the third sector organization that manages the facilities can achieve. Required to bear considerable maintenance costs, this organization has ingeniously devised a way to make the public facilities frequently used. The organization did not insist on the kind of performances that were put on the stage, but has allowed a wide range of performances. It has also welcomed citizen groups to use the halls. The utilization rates of the halls, both main and auxiliary, have risen up since the opening, and reached over 90% by 1992.² Because of this flexibility, the halls are frequently used as well as has become friendly to local residents. Further, the halls are equipped with fine stage devices, and many users have repeatedly used them for this reason.

Table 4-2: Utilization Rates of the Public Facilities

	1988	1989	1990	1991	1992
Main Hall	87 %	88 %	84 %	88 %	92 %
Auxiliary Hall	81 %	86 %	93 %	92 %	94 %
Convention Halls (6 halls)	53 %	60 %	70 %	72 %	66 %
International Conference Room	64 %	51 %	68 %	76 %	72 %
Meeting Rooms (27 rooms)	60 %	82 %	86 %	88 %	86 %

Source: The Prefecture of Saitama

The public office space has shown a good performance, too. It has been 100% occupied since the opening. The rental rates are about 70% of the market average, which is about 6,800 yen/m² in 1993.³ This rental revenue has enabled the managing

organization to compensate for a loss from the hall management and run on a self-paying basis. The prefectural government thus has not needed to subsidize the organization at all,⁴ one of the unexpected achievements it has made.

The private office space has also been 100% occupied. Even in 1993, when Japan was in a serious depression after the burst of the overheated domestic economy, the office space was still 100% occupied. The rental rates were about 10% higher than the market average, although about 55,000 m² office spaces were vacant in the area at that time.⁵

According to a survey conducted by the prefectural government, 61% of tenants that had moved into the Sonic City expressed that they had moved in because the location of the Sonic City was convenient. Also, 23% of tenants expressed that they moved in, expecting to create a positive corporation image by being in the Sonic City. Tenants in the Sonic City were generally satisfied with their being in the Sonic City. Over 90% of tenants considered that the Sonic City had contributed the prefecture promoting local industry, creating the opportunity for cultural activities, and establishing the identity of the city and prefecture being as a symbol.⁶ This was identical to say that the prefectural government had successfully achieved the original objectives of the project.

3. Economic Impacts

The Sonic City has made significant economic impacts too. It is hard to accurately estimate economic impacts that one particular development has made. However, it seems to be true that the Sonic City has made significant impacts on the prefecture, because the new term, "Sonic Effects," was invented to refer to impacts that were made by the project. Since Saigin Research Institute, a subsidiary of the largest

bank in the prefecture, estimated the economic impacts, I would like to introduce them to glance at what impacts the Sonic City has created on the prefecture.

Saigin Research Institute applied Wassily W. Leontief's input-output analysis in estimating the level of economic impacts the Sonic City made. This analysis assumes that there is a certain relationship in the good-and-service flows between industries and the final demand of an economy.⁷ On this assumption, the analysis allows to estimate the level of economic impacts by working out a tabular summary of the flows, which is unique to each economy.

According to the estimation, the Sonic City induced 155,733 million yen (US\$ 1,237 million),^{Footnote 1} 3.25 times larger than its original construction costs. While it was under construction, 47,867 million yen (US\$ 380 million) was invested in the Sonic City, including construction material costs and tenant improvements and excluding land acquisition costs. After the first round of the flows, 69,306 million yen (US\$ 551 million) was induced through the purchase of construction materials and the consumption of wages. Then, after the second round, another 38,560 million yen (US\$ 306 million) was induced. The total ripple effects estimated were 107,866 million yen (US\$ 857 million). Out of this amount, 33,214 billion yen (US\$ 264 million) was used to increase personal income.⁸ This was equivalent of employing additional 5,000 persons in the prefecture.

It may be dangerous to believe the estimated figures as they are. This is because estimation is estimation. This is also because some of these ripple effects may be generated by reducing products that may have been generated in nearby prefectures

¹ The exchange rate used is 125.85 yen = US\$ 1.00, the rate prevailing at the end of 1988.

otherwise. Therefore, it is safe to say that the pure effect of the Sonic City on the whole society is less than this estimation.

Table 4-3: Ripple Effects of the Sonic City

(Unit: Million Yen)

Total Construction Costs	47,867	(US\$ 380)
Ripple Effect	107,866	(US\$ 857)
1st Round	69,306	(US\$ 551)
2nd Round	38,560	(US\$ 306)
Total Effect	155,733	(US\$ 1,237)

Source: Saigin Research Institute

The estimation of Saigin Research Institute also said that economic impacts of the Sonic City would continue after completion as well. Through business activities that would be conducted in the Sonic City, the gross prefectural product was estimated to rise by 0.5% (65 billion yen) in 1988 and by 0.7% (107 billion yen) in 1992.⁹ Again, however, some products might be generated through the reduction of products in other prefectures. Thus, we need to be careful when interpreting this kind of estimation.

Table 4-4: Estimation of Gross Prefectural Product Increased by the Sonic City

(Unit: Billion Yen)

	1988	1989	1990	1991	1992
Increased GPP	64.7	65.2	73.2	84.2	107.1
% of GPP Raised	0.5 %	0.5 %	0.5 %	0.6 %	0.7 %

Source: Saigin Research Institute

The estimation continuously said that this increased prefectural product would then

bring additional tax revenues to the government at each level. According to it, the prefectural government would obtain additional 3,364 million yen through an increase in tax revenues in 1988 and 6,274 million yen in 1992.¹⁰ Since this is just an estimation and an old estimation done in 1989, it is hard to know if the prefectural government has really gained extra tax revenues as was estimated.

However, if the estimation was not misdirecting, then the prefectural government may have possibly gained extra 10,326 million yen tax revenues in the first three years (Table 4-5). This amount is larger than what the prefectural government paid to acquire the public portion of the Sonic City (7,516 million yen). In other words, the prefectural government could well pay off the Sonic City in three years. Since it does not subsidize for the management of the public facilities, the prefectural government does not have to pay for the Sonic City anymore. Therefore, it may be possible to say that the prefectural government built the Sonic City for nothing and will enjoy the fruits from it without spending extra costs from now on.

Table 4-5: Estimation of the Prefectural Tax Revenue Induced by the Sonic City

(Unit: Million Yen)

	1988	1989	1990	1991	1992
Induced Tax Revenue	3,364	3,099	3,863	4,711	6,274

Source: Saigin Research Institute

4. Social Impacts

The Sonic City, with the 31-story office tower, shoots up in front of the locally important station. The appearance is so appealing that the Sonic City has made

significant impacts on local residents' everyday life, too.

Before completion, the west gate area was sort of an isolated area. Most of those who visited this area were JNR employees and other labor workers. The city was growing to the east of the station, creating a great gap between the two sides of the station.

The Sonic City, however, has changed the basic pattern of pedestrian flows. The tall office tower has pulled in thousands of businessmen to the Sonic City every morning. The large multi-purpose hall, which seats over 2,500 people, has been attractive to those who want to see something unusual, because they can now see some event if they come to the Sonic City anytime. With the over 90% utilization rate, many people could expect that some event may be presented in the hall.

The change in pedestrian flows was remarkable. According to the survey conducted by the municipal government in October 1989, it became obvious that more people visit the west of the station rather than the east.¹¹ This is to say that the Sonic City has changed the structure of the city within one year and a half after completion.

Another survey clarified that about 80% of those who were using the station considered that the west gate area became much better than before. Additional 16% considered that the area became somewhat better, thus making over 95% feel positively about the change that had occurred in the west gate area. 56% of people expressed that they visited the west gate area more frequently than before. Interestingly, elders answered more positively about the change although such people usually show distaste for a significant change. Over 90% of those who were in their 50's - 60's responded positive to the change in the area.¹²

Not all changes were attributable to the Sonic City. With two more large developments ongoing in the area, the change should be said a joint result of these three developments. Being the largest, however, it may be possible to say that the Sonic City has played the most important role in enabling the change that had occurred in the area. For example, the same survey clarified that 88% of respondents felt more like going to the west gate area than before for shopping, entertainment, and dinner. The Sonic City seems to be important in offering such opportunities in the area. Also, 37% expressed their wish to work in the Sonic City in the survey.¹³

5. Political Impacts

A governor election was held in June 1988, 2 months after the opening ceremony of the Sonic City. Since the LDP made every effort to take the governor's seat back, Hata had a close call this time. He himself felt that this election was the hardest that he had ever experienced.¹⁴

Hata defeated the LDP's candidate again by 1,250,987 to 927,491 and began to serve his fifth term as the governor. No one can accurately tell how the Sonic City affected the election. Many voters, however, voted based on their evaluation of the past administration and expectation for the prefectural future. According to a survey conducted by a newspaper company, 20% of voters decided their votes based on how a candidate could improve the prefecture for tomorrow, although the most disputed point was whether or not to introduce a value added tax at the national administration level.¹⁵

Again, accurate impacts are undeterminable. However, it may be possible to say that Hata was reelected because his administration was highly evaluated by local

residents. And the Sonic City has worked to make his administrative achievements visible to prefectural residents.

Bibliography

1. The Prefecture of Saitama, The Sonic City (Japanese), An internal report, 1993.
2. Ibid.
3. A survey conducted by Sanko Estate Corporation in May 1993.
4. An interview to a prefectural official conducted in August 1993.
5. Ibid.
6. The Prefecture of Saitama, The Sonic City (Japanese), An internal report, 1993.
7. Donald Rutherford, Dictionary of Economics, Routledge, Chapman and Hall, Inc., 1992.
8. Saigin Research Institute, Sonic City No Chi-iki Keizai Heno Eikyo (Japanese), March 1989.
9. Ibid.
10. Ibid
11. The City of Omiya, Omiya-Eki Nishi-Guchi Tochikukaku-Seirijigyou No Kiroku (Japanese), March 1991.
12. A survey conducted by Saigin Research Institute in February 1989.
13. Ibid.
14. Asahi Newspaper Article, June 13, 1988.
15. Asahi Newspaper Article, June 10, 1988.

Chapter V

Conclusion

1. Lessons from the Sonic City

The Sonic City has given us many lessons to be reminded. In this chapter, I would like to discuss such lessons with a special emphasis on roles that the prefectural government assumed in the project and factors that helped the two sectors form a good partnership. First, distinctive features of the Sonic City project will be reexamined. Next, roles that the public sector assumed in the project will be discussed. Then, factors that enabled the two sectors to form a good partnership will be examined. Finally, some suggestions will be made to improve the Japanese public-private partnership in the future, based on lessons that we need to learn from the Sonic City project.

2. Distinctive Features of the Sonic City Project

The Sonic City has been distinctive in each stage of the project, including planning, construction, and management. These features began to be formed when the prefectural government asked private companies for assistance to get the project done. Struggling with unexperienced problems, the prefectural government considered to invite private funds and expertise to the project, and invented a new method now called as the "Saitama Method."

The Saitama Method generally refers to the following two features: clear separation of each sector's responsibilities, and use of a project competition as a way to designate a developer. Originally, the prefectural government intended to proceed with the project at its own cost and capability. However, it decided not to do so because the project seemed to be risky for a public organization that had never run business in the same market where private companies did their business. Since the project included

private office and hotel functions, if the prefectural government did the project alone, it had to run these businesses by itself. Then, the prefectural government began to consider a way to induce private companies to the project. It was natural for the prefectural government to think that way because the idea of *Minkatsu* was prevailing in Japan at that time.

The Sonic City's features began to be formulated when Hata, the governor of Saitama prefecture, denied the third sector method as a way to invite private companies' funds and expertise in 1982. This was one of the critical decisions in the project, because this decision persuaded the prefectural government to devise a new method to cooperate with private companies. At that time, it was generally considered that a third sector organization would not work well, sometimes concealing each party's responsibilities. In a third sector organization, most responsibilities seemed to be commingled and shared by the two sectors together. Since responsibilities were not clearly assigned to each sector, the public sector might have to take every blame in case of failure of a project. This recognition was the very first step for Hata to look for other ways to cooperate with private companies. And, because of this recognition, the prefectural government invented a new way to invite private companies to the project of the public purpose.

The prefectural government dared to separate each party's responsibilities. This separation worked well because each party could concentrate on what it was most interested in. The prefectural government established a base plan in which it would construct public office space to promote local tertiary industry, all-purpose halls to offer prefectural residents high-level culture at affordable rates, and an international conference room and a passport center to stimulate international exchange in the prefecture. The city

government helped the project by constructing roads and a public park, because constructing those facilities suited to the original intent. It originally intended to improve the living environment of the west gate area, which was considered under-equipped. Also, NLI could have a large investment opportunity by constructing private office space and a hotel.

The separation of responsibilities, however, did not mean that there was no collaboration between the two sectors. Rather, they repeated negotiations about what both sectors had to handle together. For example, they had to decide the way to manage the space that both sectors would use in common. They also had to decide the way to create the united atmosphere in the site, for example, by using the same base color for the entire project. In this way, it may be possible to say that the Japanese public-private partnership has evolved from the stage of shared responsibilities, which was frequently observed in third sector organizations, to that of clearly separated responsibilities. And, a project competition was an attempt that one daring prefectural government made to move into such a new stage.

The employment of a project competition was also important in that the project competition offered each party the opportunity to express its objectives and constraints. A project competition was originally employed to maintain fairness in designating a private developer. However, it worked better than originally expected and made each party clarify what it really wanted. In setting the competition terms, the prefectural government had to consider what it really needed in the project, why it needed them, and what offers it had to make to invite private companies. Private developers also had to make sure what contributions they could make and what conditions they needed the

prefectural government to accept in making a proposal. For instance, Nomura proposed smaller office space than the competition terms required. This was identical to Nomura saying that the prefectural government had overestimated the market and it could not accept such a condition. In forming a partnership, it is very important to show one's own views and objectives in the first place. The project competition seems to have worked as the first meeting to start negotiations, each party clearly expressing its standpoint.

The project competition was also endowed with an element that would require the private sector to cooperate with the public sector for a long time. The competition terms asked private developers for management plans as well as design and construction plans. This meant that they were asked to propose how they wanted to manage properties with the public sector. This also meant that the prefectural government was expecting to have a long-term relationship with a private developer. In making a proposal, private companies were required to assume such a long-term relationship with the prefectural government.

Besides that, the prefectural government probably had its own reason to form a long-term relationship with a private developer. The prefectural government prepared the site to construct the Sonic City. This deed could be justified because the Sonic City was planned by the prefectural government to promote public interests. Simultaneously, however, it was possible to say that the prefectural government would prepare the site for a private developer constructing a private building for its own profits. Different from the US, Japan did not have a system in which a public organization assembled a site to write down to a private developer in order to promote public interests. Such a maneuver might be understood as unreasonable asset distribution from a public organization to a private

developer in Japan, even when selling price was about the market price. In order to avoid such criticism, the prefectural government needed to retain some level of control over the project even after completion. And, for this reason the prefectural government probably did not separate the project to two parts but formed a partnership with a private developer.

The competition jury was also important in this project. Although the jury was established mainly to keep the dignity in selecting a private developer, it also acted to help the two sectors maintain a good relationship. To me, the jury seems to have worked as a mediator, doing more than originally expected to do. It was originally established to make a judgement of proposals. However, it helped the prefectural government seriously recognize that the site preparation was government's responsibility. It conducted preliminary studies and decided how much area should be assembled and by whom. It also clarified conditions necessary to induce private companies to the project. Even after a developer was designated, the jury contributed to the project as the construction work supervisory committee. And, because of its high dignity to some extent, the two sectors could keep negotiating over issues that would impose extra financial burden to either sector. For instance, the committee settled a conflict on how to manage the pedestrian deck. The public sector wanted the private sector to manage it because the private sector constructed it. The private sector, on the contrary, wanted the public sector to manage it because the private sector constructed it for public interests. Then, the committee settled this conflict by suggesting that both sectors manage it together, bearing costs according to the floor area that each sector would own. Because this committee was a third party with significant authority, it could effectively handle conflicts between the two

sectors. And, if such a committee had not existed, the project might have been prolonged with many conflicting issues unresolved.

Planned to include both public and private facilities in the same site, it is possible to say that the Sonic City was endowed with a seed that would grow to a collaboration between the two sectors. And, the prefectural government performed a very important role in successfully raising such a seed to flower. In the next section, I would like to examine what roles the prefectural government assumed and how such roles worked in forming a partnership with a private developer.

3. Roles the Prefectural Government Assumed in the Sonic City Project

In the Sonic City project, the prefectural government performed roles that public organizations in Japan had rarely played before. It contributed the land to a joint project with a private developer. Such a deed had rarely been conducted because governmental organizations had been unable to own the land in common with private entities by law. This was also because such a deed would easily raise public criticism in Japan as explained before. The prefectural government, however, overcame such difficulties to attain its objectives. To understand government roles, it is important to know what achievements the public sector wanted to make in this project. Therefore, I would like to first clarify objectives that the prefectural government held in this project and then examine roles it assumed.

In the Sonic City project, the prefectural government intended to change Saitama Prefecture to something more than Tokyo's bed-town, and this seems to have been the foremost objective. Although both Saitama Prefecture and Omiya City had rapidly grown,

this was because the area had functioned as a bed-town. Many prefectural residents had commuted to Tokyo instead of going to local companies or schools. The prefecture had grown in terms of population, but many of them were those who had moved in to commute to Tokyo and were not deeply attached to the area. The prefecture, therefore, wanted to establish itself as an area to be loved by residents. Although the project was originally planned to replace an old building, the prefectural government wanted to make the most of this opportunity to find a way to establish identity. This was why the prefectural government stuck to creating a prefectural symbol throughout the project.

To establish itself, the prefectural government wanted to make a prefectural core that could assume the following functions: to promote local tertiary industry, offer sophisticated cultural performances, and facilitate international exchange in the prefecture. The prefectural government intended to encourage not manufacturing business but office-related business because its original idea was to draw back people who commuted to Tokyo. A large all-purpose hall was also important to make those who frequently visited Tokyo for a sense of culture look again in their home prefecture. Before the Sonic City, there had been no such a large well-equipped hall in the prefecture.

Probably, the prefectural government also intended to increase local employment and tax revenues by this project. The office tower was expected to house about 120 tenants. This meant that about 3,500 people would work in the Sonic City. While some of them might be replaced from somewhere in the prefecture, others were to be newly employed. The construction work of over 30 billion yen (US\$ 200 million), was also a good opportunity to increase employment because local construction companies could expand their business by receiving construction orders. Moreover, new large office space

was a good revenue source for the prefectural government. Generally, office space was one of the main tax sources of prefectural governments in Japan. The amount of such tax was determined by both the total office floor area and the number of employees working there. For this reason, a large office development must have been very attractive to the prefectural government.

There may have been a political reason for the Sonic City project. Having a term end in 1988, Hata, the governor of Saitama Prefecture, may have wanted to make a visible achievement in his administration. And as such an achievement, he may have been interested in the Sonic City project. It is not clear when he began to consider the Sonic City as an opportunity to make a political achievement. However, it is reasonable to assume that he intended to make a positive factor by this project in order to prepare for the coming election, which he expected to be hard.

As compared to the US cases, it is interesting that the site itself was less important for the prefectural government in the Sonic City project. In the US cases, public organizations seem to be interested in the site, and such an interest is often a starting point to form a partnership with private developers. The Horton Plaza, San Diego, and the Copley Place, Boston, were developed to improve space that had been unfavorable for people's everyday life. The Pike Place Market, Seattle, and the Faneuil Hall Marketplace, Boston, were developed to preserve space that had been in a critical situation even though it had historical value. In forming a partnership, both sectors were interested in a certain site, and to improve or preserve such a site, they formed a partnership. In other words, the two sectors in the US were under a situation like this: Two adversaries were in the same boat, and they found that boat leaking. Discovering

both have a common interest in saving the boat, they formed a partnership to determine a common course of action: Should they row for shore, or try to plug the leak?

In the Sonic City project, on the other hand, the prefectural government decided the site probably for the following reasons: it was the original site of the chamber-of-commerce building, and it seemed to be easy to assemble the site because most of it were publicly or semi-publicly owned. In the project, the prefectural government did not intend to improve an unfavorable area or preserve something valuable to the prefecture. The prefectural government was not in a leaky boat and therefore not forced to form a partnership. Forming a partnership with a private developer was just one option for the prefectural government in this case. This understanding may lead us to the following conclusion: In the US, a public-private partnership is formed to develop a site that has a reason to be developed, and forming such a partnership is therefore inevitable to some extent. In Japan, on the other hand, a public-private partnership is formed to construct facilities that the area is lacking in, and forming a partnership is more like an option for the public sector.

It is dangerous to make a conclusion from only one case. However, even in many other cases, the Japanese public-private partnership is not used as a way to preserve regionally valuable properties or improve deteriorated areas. And, since a site itself does not have a special meaning in a project, citizen groups do not usually play an important role in a public-private joint project in Japan. In the Sonic City project, for example, local residents could not assume a role in making or shaping the project plan. What they could do was only to take part in the construction process to reduce construction-related problems. The chamber of commerce, which was supposed to represent local small

business interests, did not play any role in the project, although its request was the first step of the project. No local organization, except for governments, got involved in the project on behalf of local communities for local interests.

Having analyzed objectives of the prefectural government, I would like to examine roles that it played in the project. One important role that the prefectural government played was to make base plans such as the Intermediate Range Plan and the Construction Plan of the Industrial and Cultural Center. Most of the plans were rather conceptual showing just facilities to be constructed. However, because of these plans, each party could make a right decision towards the foremost objectives, even when dissonances occurred during the project.

Another government role was to prepare the site. This was done with the city government. The city government helped the site preparation because it had conducted the land readjustment project in the area. The main role of the prefectural government was to replace stall-like bars that had moved from the adjacent land readjustment area. Though governments generally do not take such a role, the prefectural government did it to persuade the city government to contribute the site that had been under the city's own project to the Sonic City project.

The site preparation was a significant support to the private developer in that this reduced burdensome work of the developer. This also brought a good development opportunity that an ordinary developer could hardly obtain alone. Unfortunately, it is not clear how much the public sector had spent to assemble and prepare the site in total. However, it is possible to estimate the worth of the entire site by multiplying the total land area by the unit land price employed in the land lease title transaction between the

prefectural government and NLI. According to this estimate, the entire site was expected to be worth of 26,168 million yen (US\$ 164 million)^{Footnote 1} at the time of the transaction. Although this figure does not include costs incurred to prepare the site such as for grading and improvements or compensations paid to replace the land owners and other property owners, it is obvious that the public sector contributed a very expensive asset to the project. According to the figure publicly available, the public sector spent 7,713 million yen,^{Footnote 2} and the private sector spent 29,675 million yen on the project. This means that the public sector assumed only 21% of total costs in the project. However, when the land value is taken into consideration as shown in the Table 5-1, the public burden becomes 33,881 million yen, 4.4 times larger than the amount the public sector actually paid in cash. This also suggests that the public sector practically assumed more financial role than did the private sector, bearing 53% of total assets contributed to the project.

Footnote 3

Table 5-1: Financial Contribution of the Two Sectors

(Unit: Million Yen)

	Public Sector	Private Sector	Total
Land	21,077 (81%)	5,091 (19%)	26,168
Building	12,371 (34%)	23,889 (66%)	36,260
Other Improvements	433 (38%)	695 (62%)	1,128
Total	33,881 (53%)	29,675 (47%)	63,556

¹ The exchange rate used is 159.10 yen = US\$ 1.00, the rate prevailing at the end of 1986.

² 7,713 million yen = (12,371 + 433 - 5,091) million yen, where 12,371 million yen is the cost of the building that the public sector acquired in the project, 433 million yen is the cost of improvements such as a park and bus depot, and 5,091 million yen is the amount that the public sector earned through the land lease title fee.

³ The park and other public-use sites are included as well as the building site to calculate the contribution ratio of 53%.

Probably, it is possible to say that inventing a new way to form a partnership was an unique role that the prefectural government performed in this project. The prefectural government devised a project competition in order to select a private partner to do the project with. It also set up the competition jury, a third party organization, to maintain fairness in the process of designating a developer. Probably, it is common in the world that the public sector is less flexible in altering its organization and administrative procedure than is the private sector. This is especially true in Japan, and therefore it was very crucial that the prefectural government invented a new way to cooperate. Moreover, the prefectural government had conducted preliminary feasible studies before making the competition terms. It conducted the studies because it knew how important it was to make a plan attractive to private developers. And, it tried to make a scheme in which private developers could fully demonstrate their expertise. Actually, the prefectural government imposed the minimum level of constraints on private developers in the competition terms and left the greater part flexible to encourage free and interesting ideas.¹ It may have been a result of such consideration that the prefectural government prepared the site and coordinated the building permits process between the city government and the private developer. As a matter of fact, no public organization had prepared a site for private developers or coordinated the building permit process in Japan, because they did not think such deeds to be their roles and because such deeds were easy to raise public criticism.

Another notable role that the prefectural government assumed was to manage public space in cooperation with the private developer. For a long time, governments had been prevented from owning and managing a property with a private organization by law

in Japan. The Sonic City was an early case after such laws were relaxed. The prefectural government established a third sector organization with the private developer to manage the common space of the office tower and part of the pedestrian deck. Through this third sector organization, the prefectural government not only kept but also deepened the relationship with the private developer.

Of roles that the public sector assumed in the Sonic City project, some seem to be common to the US counterparts. First, it took responsibility for advance planning and feasibility studies. According to a survey conducted by Frieden, et al,² it is very common that the public sector takes such responsibility in the US. The public sector took such responsibility in 40 out of 40 total projects investigated. Second, it prepared the site and constructed public facilities such as roads and a park. This is also very common in the US, as the same survey reports that the public sector acquired land in 34 out of 40 projects and constructed infrastructure in 36 projects. Third, it established special-purpose organizations for the project such as the Industrial Policy Office, inter-departmental committees, and the competition jury. Establishing such special organizations is sometimes observed in the US, too. Also, by flexibly altering the administrative organization, the prefectural government could show earnestness to the project. Last, it requested the private developer to change several architectural features in order to make the Sonic City better suit the public purpose. For example, it asked to make the top of the office tower open to the public with the expansion of the floor area. Similarly in the US, the Pasadena Redevelopment Authority required the private developer to make some stores face the street against the conventional layout pattern of a shopping mall in the Plaza Pasadena project, Pasadena, California. The authority also asked to make a public

passageway through the mall structure to link the Public Library and City Hall with the Civic Auditorium in the same project.

On the contrary, some government roles were original to the Sonic City or the Japanese public-private partnership. First, it leased the land rather than sold it to the private developer. In the US, the public sector leases land to help private developers reduce its front-end investment as well as to retain control over the land. In the Sonic City, however, the public sector leased the land not to support the private developer but to enjoy land appreciation, which was very probable in Japan. Also, it did not write down in selling the land lease title. Second, it used its own funds to do the project without inducing national government support. The prefectural government issued local bonds, but such bonds had to be repaid in the long-run. Therefore, there had been no free funds transferred from the national government. Many US local governments, however, worked as a conduit to circulate federal funds especially when the urban development action grant was available. Third, it showed a significant risk aversion throughout the project while US cities headed into sharing development risk and profit with private developers.

Similar to the prefectural government, other parties also had their own objectives and roles in participating in the Sonic City project. The Table 5-2 summaries such objectives and roles as shown below.

Table 5-2: Each Party's Objectives and Roles in the Sonic City Project

	Objectives	Roles
Prefectural Gov't	<ul style="list-style-type: none"> - establish a prefectural identity (symbol) to shape itself free from Tokyo. - create a prefectural core with facilities to promote local industry, culture, and international exchange. - offer a place to work, eat, and enjoy to local residents. - create construction works for local companies. - may have expected to increase tax revenues. - establish a visible achievement of Hata's administration. 	<ul style="list-style-type: none"> - make clear public objectives of the Sonic City. - replace stall-like bars to prepare the site. - conduct preliminary feasibility studies before inviting private proposals. - coordinate the building permit process. - manage the common space with the private developer. - manage public office space and all-purpose halls. (- hold a project competition with the establishment of the competition jury, a third party organization to judge proposals, to maintain fairness in the competition process.)
City Government	<ul style="list-style-type: none"> - reduce the environmental gap between the east and west sides of the station. - expand the station for the new super-express lines. - construct a better road system. - construct a pedestrian deck system to enable safe pedestrian circulation. - demolish shabby bars to improve living environment. 	<ul style="list-style-type: none"> - assemble the site. - construct public facilities such as roads and a park. - manage roads, park, and part of the pedestrian deck.
NLI	<ul style="list-style-type: none"> - make an investment in a stable income-generating asset. - establish a business record of conducting a project with the public sector to expand the business chance. - establish a positive company image by contributing to a prefecturally important project. - establish a more stable business foundation for its main business, insurance policy sales. 	<ul style="list-style-type: none"> - finance the project. - construct a pedestrian deck for the city. - solve any problems that local residents would raise. - find a hotel company that would manage the hotel in the Sonic City. - manage private office space.
Fujita	<ul style="list-style-type: none"> - receive a construction order of the project. - establish a sounding business foundation in Omiya. 	<ul style="list-style-type: none"> - make architectural plans. - construct the Sonic City by the due date. - solve any problems that local residents would raise.

4. Factors that Facilitated a Partnership between the Two Sectors

It may be important to examine the reasons why the Sonic City project resulted in a success. But, it is more important to clarify the reasons why the two sectors could form a good partnership in the project. I classified such reasons into three categories: those particular to the public sector, those particular to the private sector, and those common to both.

Among reasons that were particular to the public sector, Hata's strong leadership should be firstly remarked. As the governor, Hata demonstrated the strong leadership in various scenes. The original plan of the Sonic City was just to replace an old building for the chamber of commerce. But, he shaped this idea to the plan of the Industrial and Cultural Center, what is now known as the Sonic City. Under his leadership, the prefectural government released the Saitama Long Range Plan in 1978, the Intermediate Range Plan in 1979, the You and I Plan in 1982, and the Construction Plan of the Industrial and Cultural Center in 1983. Every time the prefectural government had to make a critical decision concerning the project, he took the initiative and decided the way to go. When a way to invite private companies was under consideration, Hata denied the recommended plan, the establishment of a third sector organization, although that method was popular in Japan at that time, and cut a way to invent a new method to form a public-private partnership. Hata also altered the prefectural organization to proceed with the project. He created the Industrial Policy Office in 1982 as a section to deal with the Sonic City project. Further, he established a number of inter-departmental committees to stimulate discussion on the project. Hata's strong leadership affected even private companies. He invited the Tokyo Electric Power Company (TEPCO) to open a

showroom on the top of the office tower. Although it was the private developer's responsibility to find tenants for private office space, a showroom included, he directly asked TEPCO's president and obtained a positive answer from him. This was very helpful for the developer because it was expected to be hard to find a tenant for the showroom. This was because the tenant had to bear rents for the showroom, even though such space might not directly contribute to business.

Another reason for a good partnership was that the prefectural government understood its lacking of some expertise to get the project done. The prefectural government would not be able to find private tenants satisfactorily and manage private office space properly without help of experienced private companies, and it knew that. The prefectural government also knew it was risky to run a hotel by itself. Knowing its incapability, the prefectural government frequently consulted third parties about how to proceed with the project. For example, it asked Urban Planning and Design Institute for a report on the Sonic City in 1981 to make sure what functions were insufficient and what features would be feasible in Omiya. It further conducted feasible studies with Japan Research Institute for Social Development after 1983, and recognized that the Sonic City would be more than a project it could do alone. Such an understanding made the prefectural government sincerely consider what compromises it had to make to join hands with private companies.

The prefectural government had also established clear objectives of the project, the third reason for a good partnership. Each officials therefore could aim at the same end even though the means to be taken may have been different. They shared information in detail, and such a circumstance probably fostered the feeling of solidarity among

prefectural officials.

Particular to the private sector, it is notable that the developer understood the importance of paying regard to the public purpose. In making a proposal, NLI/Fujita paid much attention to reduce adverse effects on the surrounding area. It reduced the height of the office tower against the prefectural government's aspiration. But, this was to avoid the serious problem of electric wave jamming that would have occurred otherwise. It also tried to harmonize the Sonic City with an adjacent district. Hall exits were made to face retail shops in the adjacent district in order to facilitate smooth pedestrian flows to such shops after hall events.

Further, the developer understood that much information would be open to the public. In many cases, private developers do not want to release information until the project is completed. They want to hide especially financial and contractual information. In the Sonic City project, however, much information had to be open because the project was conducted jointly by the public sector and the prefectural government had to obtain approvals from the local assembly. To enable open information, the two sectors had to repeat negotiations with patience.

Additionally, the private developer was flexible in finance. Although the prefectural government could receive 5,091 million yen from NLI as the land lease title fee, it still had to pay 7,516 million yen to Fujita to obtain the entire part of the public office and halls. 7,516 million yen was not a small amount for the prefectural government to pay at once, and Fujita proposed 10 years' installments at prevailing prime rates. NLI also fully paid the land lease title fee by the time the Sonic City was completed. Without such an arrangement by the private sector, the prefectural

government, suffering from a high burden of fixed costs, might not have been able to finance the project.

Among factors that worked for both sectors, the establishment of the competition jury seems to have been very crucial. Since the jury was a third party, it could effectively maintain fairness in the designation process. And, supervised by a third party, the two sectors could rely on each other. If such an organization had not existed, each sector might have failed to make deals, being skeptical about the other's actions and assertions. Remarkably, the jury mediated problems even during the construction period under the name of the construction work supervisory committee. Every matter that might raise a conflict was examined by the committee. Since the committee consisted of authoritative members, its suggestions were highly appreciated. The two sectors generally accepted suggestions without alteration, considering such suggestions were made from a higher point of view.

The process of information sharing and consensus building was also important to create the sense of mutual reliance, thus creating a good relationship between the two sectors. Both sectors knew that they had to be patient as well as flexible to reach an agreement satisfactory to both. Both sectors respected the other's standpoint and sincerely agreed not to embarrass the other. Consensus building in Japan is more likely to be a bottom-to-up group exercise than in the US. People on the bottom or at the point of action are more likely to be engaged in the consensus process. Decisions that reflect once-reached consensus are therefore likely to be better informed because the analysis on which the decisions are based draws on knowledge at all levels. And such a practice encourages effective and expeditious action because people at all levels—having

participated in shaping the decision--understand the decision and feel they have a stake in making it work.

Lastly, it was important for the two sectors to separate responsibilities to each sector. In the Sonic City project, the public sector was responsible for basic planning, site assembly, and management of public office space and halls. The private sector, on the other hand, was responsible for implementation planning, building construction, and management of private office space and hotel. Originally, the prefectural government planned to separate responsibilities to avoid troublesome office and hotel management. Such separation, however, helped each sector demonstrate its real ability. For example, the prefectural government successfully devised a way to finance the hall management by combining it with office management. Fujita succeeded in reducing the construction period by employing the up-down construction method and lived up to the prefectural government's expectations. By assigning each responsibility to the most appropriate party, a cooperation was better formulated in this project.

5. Several Issues to be Addressed to Improve Public-Private Partnerships in Japan

The public-private partnership fever seems to have cooled down in Japan. This is because the urban development boom, which appeared in the mid 1980's, have been declining as the government changed its attitude. The government now strictly deters real estate developments to calm down the overheated real estate appreciation. About the same time, the economic condition turned downward in Japan, and many private companies began to exit the real estate market. Real estate has significantly reduced its attractiveness as an investment vehicle, and private companies have cut down funds to be

used for real estate investment. Under such circumstances, both public and private sectors now face the necessity to reconsider how the public-private partnership should be like in the future. In this last section, I would like to discuss issues that seem to be important to improve the Japanese public-private partnership. Such issues include problems found in the project competition method, efforts to maintain the public purpose in a project, and the necessity to invite citizen groups to become involved in a project.

The Sonic City project clarified that a project competition contains several issues to be attended to. First, maintaining fairness is very important in a project competition. Fortunately, the competition jury did know how to deal with unexpected events that might raise suspicion and criticism if poorly handled. When Fujita offered to discount the price of public facilities, the jury manipulated it with such a capita idea: the jury would select the best of the original proposals, and if NLI/Fujita's proposal was selected, the prefectural government would purchase public facilities at the discounted price while using the amount discounted for other public purposes. If the prefectural government had accepted the discount offer as it was, it would have raised severe criticism, and the competition might have resulted in a failure. This is because Fujita's offer was just like a bidder changing its bid after he found the lowest bid. The jury's decision was correct in avoiding this problem. This decision also allowed to utilize the amount discounted in other use. Instead of bringing the offer to naught, the jury suggested to use it for improvement of the site and the surrounding area.

Large costs to make a proposal also require consideration. Each group spent approximately 20 - 30 million yen (US\$ 100,000 - 150,000) to make a proposal even without personnel expenses for the Sonic City project. However, once losing in the

competition, losers could not gain anything. They could not recover even costs of the proposal. Such a practice may make private developers consider it risky to participate in a competition. Consequently, this method may limit the range of private developers, allowing only large-scale companies with financial strength to make a proposal. Without showing some kind of consideration to losers, the public sector may not be able to form a real partnership but stay in the realm of the private company utilization.

Having reviewed major problems, I think that a project competition is a good method only when the economic condition is brisk. If the economic condition is seriously depressed, few private companies will make a proposal, whatever compromise the public sector may make. Usually, the public sector overestimates the market rather than underestimates, and even if the market obviously turns downward, it is generally hard for private companies to change agreements that are already made with the public sector. For this reason, it seems to be risky for private companies to participate in a project competition when the economic condition is not brisk.

In considering the future partnerships, how to maintain the public purpose will be another important issue. In the Sonic City project, the private developer paid attention to the public purpose, considering how to connect the site with the station or how to reduce construction-related problems. However, the public sector may not be able to expect such considerations from private developers in other cases. This is because private companies in Japan seem to be less dominated by philanthropy or willingness to contribute to the community than in the US. In the US, there is a tradition that business leaders are actively involved in civic affairs. Businesses often make philanthropic contributions to community projects, such as orchestras, museums, universities, and

community development corporations, helped by a special treatment that such contributions are deductible from corporate income tax.³ However, there is little tradition of corporate philanthropy and contribution to local communities in Japan. Also, even if private companies make a contribution for the public purpose, such contributions are hardly deductible for tax purposes in Japan. Accordingly, in many cases, private developers face problems in balancing private profits and public interests. And, without an incentive to make public contributions, private companies tend to seek for as large profits as possible because the effect of public contributions are invisible and hardly determined.

The last issue to be addressed is how to persuade citizen groups to be involved in a project in the future. The public-private partnership has been formed only by the public and private sectors in Japan. I think, however, that citizen groups have to be added to the usual duality of public and private sectors. This is because they have to live in the area even after the project is completed. Having to live with the consequence of one's decision seems to be the best way to ensure serious discussion and decision-making. Tunney F. Lee, professor at MIT, points out that projects are better designed, more sensitive to its surroundings, more efficient, and better kept up by the participation of citizen groups.⁴ A city can foster a stronger sense of community if its citizens feel more in control of its physical environment through participation and ownership in nearby projects.

In the Sonic City project, a hotel was added since a survey conducted by the prefectural government clarified a residents' wish to have a first class hotel in the prefecture. Also, the Omiya Station West Gate Area Big Project Council was established

under the initiative of local residents to deal with any problems that would occur related to the ongoing construction work in the area. However, no citizen group had been involved in planning, building design, or management processes. All crucial decisions were made only by the prefectural government and the private developer, which was a nation-wide company and had little particular interest in the area.

As earlier stated, a project is better shaped when those who have special concerns are involved in it. In other words, when citizen groups becomes involved in a project for the sake of the local community, the project becomes more preferable to the community and will be appreciated for a long time. If such an idea is acceptable, public-private projects should be more promoted in cities with a strong sense of community, cities that are relatively independent, or cities that work as a regional core. And, helped by citizen groups that seriously consider their own area, the public-private partnership may be better employed to promote local and public interests, conducting, for example, mixed-use developments that include facilities exclusively dedicated to local communities, such as all-purpose halls, public libraries, or gymnasiums.

Bibliography

1. The Prefecture of Saitama, Saitama-Sangyo Bunka Center (Japanese), July 1986.
2. Bernard Frieden, et al, Government Roles in City Development in the United States, MIT Center for Real Estate Development, June 1988.
3. R. Scott Fosler, Public-Private Partnership in the United States and Japan, A report to the Housing and Urban Development Corporation of Japan, May 1991.

4. Tunney F. Lee, Citizen Participation in Development: The Case Study of the Boston Region, A report contributed to a seminar on public-private partnerships in urban development held by the City Planning Institute of Japan, November 1991.