

Regeneration of Local Areas

— A Community-Based Local Sharing Economy Approach —

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Abstract

Japan faces hitherto incompatible issues such as abandoned properties unfit for modern habitation alongside increasing demand for tourist accommodation in popular areas. In order to bridge this gap, a community-based approach is taken, with researchers acting as project leaders. A property is renovated to a level which makes it interesting to potential buyers, and then sold to them. The property is (in the case of this project) then used as guest accommodation. Social, economic, environmental and monetary benefits are realized, with the main, long-term beneficiaries being the local residents. This project is carried out with local knowledge, resources, and support. This paper describes this as a community-based local sharing economy approach. Problematic issues are found to be the availability of grants, capital gains taxation, and rules for the use of research funds.

Keywords: *community-based local sharing economy, local area tourism, local area regeneration*

1. Introduction: Explaining the *Local Sharing Economy* based on a Real Case

Resource sharing has been carried out among citizens for thousands of years (Codagnone and Martens, 2016) with examples of “small and community-based not-for-profit cooperatives” being popular, but limited to small and tightly knit communities (Shaheen et al., 1999). Examples of these include everything from community crop planting and harvesting to car sharing (first introduced in Zurich over 70 years ago), with such initiatives still being seen today but more on a for-profit basis and with modern technologies included such as smart relocation (Herrmann, et al., 2014). A term that has become familiar in recent years is the “sharing economy”, which has been associated with the advent and spread of digital technology combined with an associated reduction of business and management costs due to the creation and utilization of online platforms (Codagnone and Martens, 2016). The sharing economy has been defined as:

1. A description of events in which people consume goods while engaging in joint activities (Felson and Spaeth, 1978, p. 614).
2. “An umbrella concept that encompasses several ICT developments and technologies, among other [collaborative consumption], which endorses sharing the consumption of goods and services through online platforms” and “the peer-to-peer-based activity of obtaining, giving, or sharing access to goods and services, coordinated through community-based online services” (Hamari et al., 2016, p. 3, quoted in

Rowe, 2017).

3. Belk (2014, p. 1597, quoted in Rowe, 2017) is stricter, saying that it is “people coordinating acquisition and distribution of a resource for a fee or other compensation. “

Rowe (2017) says that Belk’s definition excludes services which do not permit asking for monetary compensation. However, this paper will argue that compensation is received in other ways, such as by obtaining an improved lifestyle, increased self-satisfaction, or other benefits, and that this can also eventually lead (in some cases) to greater monetary wealth.

For this paper, a new explanation of the shared economy is put forward, one which keeps in mind the problems faced and ways solutions are found in the local area. The exclusive idea of collaborative consumption is avoided, and emphasis on sharing not only available products or services but also on sharing of the production or supply of such products or services is more focused on. This paper’s “sharing economy” explanation is independent of the existence of the internet, and is connected to the needs of the local economy. Therefore, to be more precise, the term that is defined is the “local sharing economy”.

In order to underpin our understanding of the local sharing economy, and to put forward a robust explanation, a real-world case study is introduced. The study presented has at its core housing problems faced by many local areas in Japan, and introduces the case of Kanazawa, what is sometimes referred to as the capital or ‘anchor’ city in the prefecture of Ishikawa in west Japan (due to it being the largest center of population, as well as commerce, of the region.) Currently, there are dual, seemingly opposite, problems being faced by the city. The first issue is one of *akiya*, or abandoned houses in the city. Many of these houses are old (often from 40 to 100 years old), and “have been inherited by people who have no use for them and yet are unable to sell, because of a shortage of interested buyers” (Soble, 2015). Almost half of those houses are not even put up for sale or rent, and are just left to crumble. The reason for the dearth of buyers or renters, or even the lack of interest in trying to sell or rent the property, is given as a combination of the shrinking and aging population in Japan (Ziomek, 2017), the costs involved in repairing the properties to modern habitable standards (Brasor and Tsubuku, 2014), and the psychological and cultural taboos sometimes connected to older homes (Suzuki, 2013).

Kanazawa has an issue with these abandoned homes, with the problem becoming large enough for the local government to begin mandating measures to try to tackle the problem (or, at least, to grasp its extent) (Kanazawa City, 2017). Measures that have been put forward for consideration in Japan as a whole include lowering the decades-old punitive tax on vacant land (a policy introduced in boom times to reduce land hoarding), as this would allow owners to demolish the property without incurring additional taxation burdens of six-times the fees that are charged with a property on the land (Hidetaka, 2014). This paper will, in contrast to this, discuss a different approach although different forms of taxation will be discussed.

The second issue being faced by the city is that of the explosion in tourism. Not only Kanazawa but Japan as a whole has seen large increases in the number of foreign tourists visiting in recent years. The number of inbound tourists to Japan as recently as 2012 was 8.36 million people, yet it stood at 28.7 visitors only 5 years later in 2017

(Japan Times, 2018). This over tripling of the number of visitors was a boon for the accommodation hospitality industry, yet now the industry is struggling to keep up with demand. Kanazawa is one of the cities where foreign guests have increased significantly, and this is coupled with Kanazawa's increasing popularity among domestic travelers, too (Minami, 2016). This has led to hotels having much higher occupancy rates and to increasing prices, resulting in the demand for new hotels to be built (Nikkei, 2017)

The existence of these two conflicting issues; the surplus of housing on the one hand, and the lack of places to accommodate guests on the other, has created an incompatible supply and demand situation. The supply exists, but it is not suitable to match the demand. To bridge that gap a local project was run with the aim of making abandoned properties more attractive to accommodation providers as business premises. Details are given in the next sections. Briefly, the project aimed to have old, abandoned properties near tourist areas be purchased very cheaply by a community or project member(s), the community would do basic work on the property to make it cleaner and more attractive to an existing or new accommodation provider (such as a Japanese inn or guest house), and the house would then be sold to that provider at a small profit. The result would be that an eyesore and source of trouble in the community (break-ins, squatters, rats/termites, etc.) would be changed to a productive source of commerce at the heart of the local area. Such a situation would have a positive effect on the community, resulting in a better living environment and, possibly, knock-on effects such as increased property values for all in the area.

With the above situation in mind, the term "local sharing economy" can be explained as the situation where stakeholders in the community take an interest in local issues that have an effect on the community as a whole. They then put effort (in terms of time, knowledge, money, support, etc.) into turning negative issues into positive ones, resulting in a net positive change to the local economy. The financial input is returned along with profits, resulting in a double-benefit to the local economy and environment. This can then be used as a one-time cash reward, or reinvested to further improve the local area. This idea includes parts from definition 1. (Felson and Spaeth's (1978) "engaging in joint activities"), and definition 3. (Belk, 2014), yet expands on both of them to include the preparation of a resource for consumption or use by others, with benefits retained in the local area.

Initial Project Case Study – East Kanazawa

A location was identified to carry out the research project of the local sharing economy in action. An abandoned house built in 1936 was found advertised for sale, and was purchased for just less than three million yen, including all fees and expenses. This was 10% less than the already low price the property was advertised for, and the offer was accepted immediately, reflecting the difficulty in selling such properties. The purchase was made in January, 2016. The money was not able to be sourced from usual research funds due to various legal and other rule-based issues, so the project team raised the money from their own private finances. The house specifications were as follows:

Land Area: 51 square meters

House Type: Registered as a single-story dwelling, but had had a second story built (in 1951, unregistered)

Ownership Rights: Full rights, full ownership of house and land

Issues: Roof leak at the back portion of the house. Termites present in portion affected by roof leak. Evidence of rodents.

Building Materials: Typical for the area. Tiled roof (except for the back portion of the house, which was felt), wooden construction, and originally wooden slat siding but covered with metal siding (since approx. 40 years ago, according to a local who had worked on the siding job). Tatami floors throughout.

Adjoining buildings: Separate from building to the left. Adjoining building to the right (looking at the front).

Habitable: No, not to modern standards.

Cost: 3,000,000 yen, including associated purchasing costs and fees

Land Value: (Approx.) 100,000 yen per square meter (Tochidai, 2018) x 51 square meters = 5,100,000 yen

The neighbors were informed of the plans, and some offered moral support, others advice, expertise and equipment. One example of help from a neighboring resident was the lending of a truck for carrying away building rubbish for dumping at centers in Kanazawa port. Everyone was pleased with the plan, and no complaints were lodged. All those interviewed expressed their support for the project. The work was done by volunteers, some of whom were foreigners living in Kanazawa (and who were interested in that kind of work, along with making connections to the local area). A fund was created to pay for building materials, and this fund was also paid for privately by the project members.

To recompense risk, it was decided and agreed that the funds provided would be paid back to the investors at the rate of 110% upon the sale of the property, with the remaining profits going into a fund to be used by the community. This was agreed upon by all members and supporters.

Various work was carried out, with the first main job being to clear out the building. Unnecessary (non-supporting) walls were removed, leaving just the supporting pillars (a knowledgeable person was consulted in this). These were more troublesome than first expected as they were *tsuchi-kabe*, or wattle and daub walls made of mud plaster mixed with straw (JAANUS, 2001). Such walls are very heavy and dusty, so many volunteers were needed to take them down. Then, the ceilings were removed from the upper floor to reveal beautiful cedar beams that had been hidden for decades. Knowledge of the existence of these beams was gained during the initial inspection, before purchase. The stairs was relocated and reattached. New underfloor (plywood substrate) was installed, with insulation put into the walls (and left revealed to show potential future buyers). The balcony on the upper floor was repainted, and a large window added to make access easier. The kitchen was removed and discarded, as were all house contents. Termites and other pests were eradicated and the leaking roof was sealed.

The work was done on a part-time, ad-hoc basis by the project group and continued for about 6 months from February 2016 until August 2016. No professional help was requested or paid for. Then, in October, the house was put on the market and advertised as “located in a popular area, possibly suitable for someone hoping to create and run a guest house”. It was advertised for 4,500,000 yen, with the price decided on upon consultation with the

selling agent. The selling agent was locally based.

A full-price offer was received in January, 2017, and the deal was closed by the end of March of the same year. The purchaser liked the way the building was opened up (by removing the non-supporting walls), and planned to continue building work to turn it into a guest house. The revealed old beams were also an attractive point, as was the location. The house was now much more “accessible” to purchasers due to the changes that had been made, and this was shown by the full price offer. The full-price offer was only just a little less than the land price (usually, such old houses sell for much less than their land price as the cost of demolition before reconstruction must be taken into account), but our work had convinced the buyer that the house was worth keeping, and investing in improvements. Therefore, it was considered a good deal from both sides.

The profit made on the house was in the following forms:

1. Social: The local people got involved in different ways, and a new owner moved into the area. This was the main aim of the project – to use the shared resources of the local area to improve the local area environment. The local area had an aging population, and the buyers were a young couple in their 30s. Many locals had expressed their hope that young people would move into the area, and this hope was realized.
2. Economic: A new owner came into the area, and is currently completing the refurbishment of the house. The presence of an abandoned house can reduce nearby property values so, with this house occupied, a positive effect should be seen on local property values. Furthermore, as this house will be used for guest accommodation, money from outside the community will be used within the local area, enriching some local residents and business people.
3. Environmental: Pests such as termites and rats were eradicated, making the environment safer. The area was also visually beautified.
4. Monetary: Purchasing the property and associated costs came to just under 3,000,000 yen. Repairs, materials, dumping costs, and final selling costs came to 1,000,000 yen. Therefore, the total outlay was circa 4,000,000 yen. Income was 4,500,000 yen, leaving 500,000 profit. Then, capital gains tax on this profit (at 42%) was paid, leaving approximately 290,000 yen profit.

As described before, the profit above was shared between the members who put up capital (at a return rate of 110%), with the remainder put into a fund for future projects or local activities. The outlay was 4 million yen, so the return to investors was to be a maximum of 4.4 million yen. 4.5 million yen was realized from the sale, so the investors should have been returned the maximum amount, with 100,000 yen left for the local community fund. However, capital gains tax reduced the actual profits, leaving a smaller gain for investors, and none for the local community fund. Finally, the investors had just 107.25% returned to them.

Discussion

The project was deemed successful, as there were social, economic environmental and monetary benefits (all

described previously as profits). The project was high risk, as success or failure was an unknown quantity (it being a pilot project). However, thanks to this pilot project, similar projects can be carried out in the future with a higher degree of confidence. The return to investors was reasonable, although it did not reach the maximum potential.

In this section, three issues are briefly discussed:

1. The availability of grants

Grants are available from the city for the renovation of old buildings. These grants pay a certain percentage of the costs construction costs incurred. The reason these grants were not used is that they stipulate that certain features have to be retained and, more importantly, that certain highly skilled builders must be used. It was found that these highly skilled people were much too expensive to use, even when the grant is taken into account. Therefore, grants were not applied for.

2. Capital gains tax

The government sets a 42% capital gains tax (a total of all the taxes) on profits from property that is bought and then sold again within five years. If a property is held for five years or more, the capital gains tax is reduced to only about half of this rate. We feel that the government should think about the tax rate for projects such as this one. This project provided a much needed public service, so it was felt that such taxes are punitive. Removal, or reduction, of these taxes may increase the incidence of projects such as the one described above.

3. Using research funds for investment in these projects

This project could not use research funds to purchase the property or pay for construction costs. Therefore, the researchers had to find private investors (and, ultimately, ended up privately investing in, and taking the risk, themselves). Although recent years have seen reports of researchers stealing research funds for their own use, it should also be recognized that most researchers are honest. Moreover, if research funding were to be made available for such projects as described in this paper, profits would be returned to the research funding agency, increasing the pool for further, similar projects.

Further Research

The project needs to be reproduced to understand how different situations affect results. In addition, the situation of abandoned apartments, not only houses, could also be added to a future, more complicated, study.

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