

**Evolution of Real Estate Prices and Agglomeration:  
Theory and Evidence from the Tokyo Metropolitan Area**

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**Abstract**

The purpose of this paper is to see the connection between real estate prices and agglomeration in the Tokyo metropolitan area. In the theoretical part, we investigate the model of a city with heterogeneous regions. We find that if the rent is not sensitive to population growth, the population grows more largely in regions around the city center. In contrast, if the rent is sensitive to population growth, the population grows more largely in suburban regions of the city. In the empirical part, we test the implication of the model by using municipal-level data in the Tokyo metropolitan area. We find that the elasticity of the land price to population in the Tokyo Metropolitan area was greater than two before the mid-1990s but was less than two after the mid-1990s. We also find that in the Tokyo metropolitan area, the population had grown more largely in suburban regions until the mid-1990s but had grown more largely in central regions since the mid-1990s. These empirical findings are consistent with our theoretical prediction.