Economic Recovery and Office Market

Monthly Real Estate Market Overview
Staff Writer: Eiji Enomoto
(Translated by Yoshie)

GDP growth, just been published this week, indicated the increase for third continuous term as expected. Together with the diffusion index exceeding 50% for 17 continuous months, the economy is currently at the same level as that of Bubble Economy. However, the consumer spending is still slugging. I would like to look into the Japanese office market under these circumstances.

Overall situation is that, even though the vacancy rate is improving, the average rent is still declining. Tokyo currently has the smallest gap between economic recovery (in relation to stock value) and correlation analysis, and has 4.0% vacancy rate (five central wards. Source: Ikoma CBRE). Even though the vacancy rate is the lowest since the burst of Bubble Economy, the average rent is still not improving. However, our intelligent readers must be saying “AVERAGE is AVERAGE”, very true.

The segment analysis (construction period and average floor area) of five Tokyo central wards shows the clear polarization. The vacancy rate of large and new building is 0.1% and small and old (over 20 years) is 6.9%. Sub-market analysis indicates the vacancy rate of prime area to be 0.7% and 11.8% for the waterfront area. These enormous gaps are also influencing the rent. Rent of some areas such as Aoyama is actually picking up.

Sensitive developments per sub-market and per building are expected to continue within the market, where both macro negative elements (such as structural adjustment) and macro positive elements (such as economic recovery) coexist. The market where the analytic ability of investment managers will be tested severely.