

Survey of Office Market Trends in Tokyo's 23 Wards (2006)

-Medium-term forecasts through 2010-

It has been nearly a year since we published our last study of medium-term trends in the office market in Tokyo's 23 wards. At that time some analysts were concerned about whether the market could absorb the large amount of new supply scheduled for completion in 2006, but we forecast that the office sector would remain strong throughout the year, and our predictions turned out to be accurate.

Survey examined two key trends

As with our previous survey, the present study examined office market trends through 2010 with a particular focus on two key factors.

1. Shift from owner-occupied to leased office space

The ratio of leased to owner-occupied office space in New York City is 9:1, whereas in Tokyo it is 5:5. Further, two-thirds of all new office space under construction in Tokyo is being built for lease, while only one-third is being built for owner occupation. Assuming a building lifecycle of 50 years, this study looked at future changes in the stock of owner-occupied office space, and considered the effect of these changes on the overall rental office market.

2. The age of reconstruction and renovation

In a period when reconstruction and renovation become the major source of new supply, it is important to distinguish between "nominal new supply" and "real new supply". To determine real (net) new supply one must subtract the amount of floor space removed from the market as the result of the demolition of older buildings from nominal new supply. Assuming a building lifecycle of 50 years, we estimate that the equivalent of 2% of the total market stock will be lost each year.

Toshio Komachi

New market phenomena in 2006, and market trends through 2010

Toshiki Hayashi

Number of large-scale buildings (10,000 tsubo or less) on the rise

Compared with our findings in 2005, one new trend that has emerged is the sharp increase in the number of new large-scale office buildings (standard floor space of 100 tsubo or greater, total office area of up to 10,000 tsubo). Thirty-three buildings (300,000 m²) in this class are scheduled for completion in 2007, and a further 42 (480,000 m²) in 2008, representing about 40% of total new supply for the period. Because buildings of this scale can be completed within one or two years in response to increases in market demand, it is very likely that office buildings of this size will serve as a control valve to help maintain a balance between supply and demand.

Topics

Decline in new starts of owner-occupied buildings has bottomed out

New starts of owner-occupied office buildings have increased compared with the results of our earlier study, indicating that this trend has bottomed out. It will be important to monitor the effect of changes in new supply of owner-occupied buildings on the rental office market.

Asking rents move higher, pushing up rent increases at lease renewal

Demand exceeds supply of large-scale office buildings, and as a result initial asking rents are on the rise. This is also helping to push up rates at lease renewal.

Fixed-term leases increasing

The trend toward large-scale office integration and consolidation has led increasing numbers of companies to adopt fixed-term leases. Companies appear to be placing more emphasis on long-term stability.

Surge in new supply in Tokyo's 2 central wards (Chiyoda and Minato)

There has been a surge in new supply in Chiyoda and Minato wards. However, only two new extremely large-scale buildings are scheduled for completion in Chuo ward before the Nihonbashi Redevelopment Project comes on line some time after 2010.

New extremely large-scale projects to be completed in Shinjuku in 2009

Several new extremely large-scale projects are scheduled for completion in Nishi-Shinjuku in 2009. These will be the first such projects completed in Shinjuku in six years.

Future prospects

Through 2010 most of the new large-scale (standard floor space of 100 tsubo or greater; total floor space between 1,000 tsubo and 10,000 tsubo), and extremely large-scale (total floor space over 10,000 tsubo) office complexes will be very desirable in terms of the three key factors of location, grade and scale, so barring significant changes in the overall economy, the rental office market is expected to remain strong. On the supply side, it is very likely that reconstruction projects involving large buildings with floor space of up to 10,000 tsubo will begin coming onto the market throughout the Tokyo area. Extremely large-scale office building complexes will generate a large amount of new supply in the district near Tokyo Station. Many companies are now looking to consolidate their office functions in central Tokyo, however, if rents remain high, companies may begin to consider the option of cutting costs by seeking to establish satellite offices in suburban districts.

Toshio Komachi

Toshiki Hayashi