Topics

Survey of Trends in the Tokyo Office Market (2010)

Office vacancy rates in Tokyo's 5 central wards (Chiyoda, Chuo, Minato, Shinjuku, Shibuya) during 2009 climbed to 8.09%, an increase of 3.37 points compared with 2008＊. This was nearly as high as the level recorded in 2003 (8.57%), when supply ballooned dramatically. How will Tokyo's office market perform in 2010, when the future direction of the economy remains clouded by the ongoing global financial crisis? To answer this question we performed a study to determine new supply of office buildings (floor space ≥3,300 m^2) in Tokyo's 23 wards over the next four years (2010~2013), and we examined tenant relocation trends in 2009 (as of December 31, 2009).

＊ Vacancy rates as of December 31, 2009, based on data published by Miki Shoji

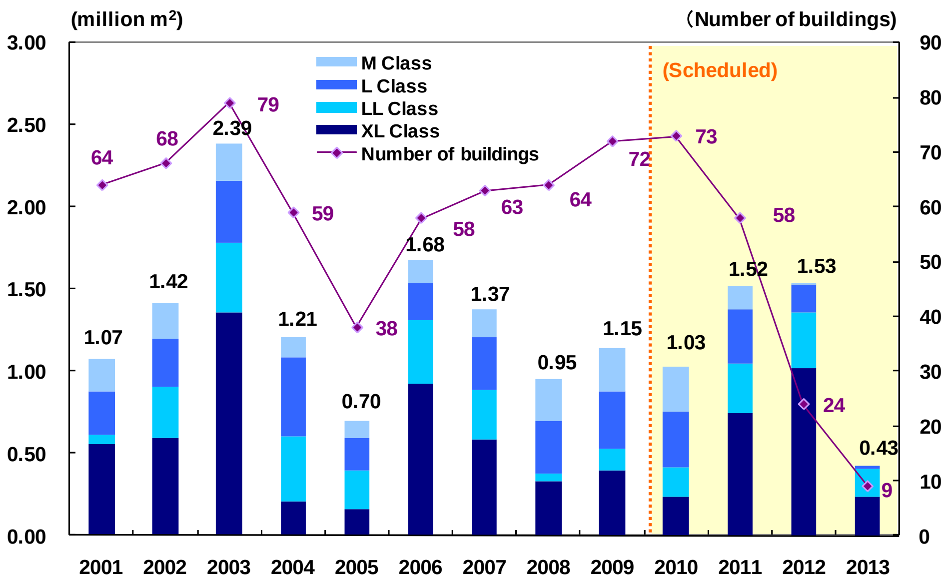
[Supply] New Supply will Expand in 2011-2012, but Proportion Located in 3 Central Wards is Falling

New supply of office buildings (floor space ≥3,300 m^2) in Tokyo's 23 wards will average 1.13 million m^2 annually over the next four years (2010~2013). Supply will fall to 1.03 million m^2 in 2010, a decline of 10% compared with the previous year, but will bounce back to relatively high levels (1.53 million m^2/year) in 2011 and 2012.

By ward, the largest amount of new supply will be located in Chiyoda (27%), followed by Koto (15%), and Chuo (14%). The top business districts will be Otemachi/Marunouchi/Yurakucho (14%), Toyosu/ Shinonome (7%), and Nihonbashi/Yaesu/Kyobashi (6%).

The main source of new supply over the next 4 years will be reconstruction in the city center, and new development in the peripheral areas. In the 3 central wards 74% of new supply will be generated by reconstruction projects. Moreover, the proportion of new office supply located in the three central wards will drop to 53%. In 2010 particularly, new supply in these three downtown wards will fall to a ten-year low of only 520,000 m^2.

New Office Supply in Tokyo's 23 wards (floor space ≥ 3,300 m^2)



Source : NRE

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Topics

[Demand]Sharp Contraction in Demand Due to the Economic Slowdown is Increasing Polarization Between Desirable and Undesirable Properties

Tenant relocation volume increased in 2009 as compared with 2008 on a contracted floor space basis, returning to about the same level recorded in 2007. The ratio of large-scale relocations on the part of expanding companies or as the result of mergers or consolidation was larger than in the previous year. Despite these factors, vacancy rates are rising sharply, indicating a large outflow of tenants from existing buildings.

We investigated the reasons for departure on the part of companies moving out of large-scale buildings in Tokyo's five main business districts. The most common reason given was "Bankruptcy/Downsizing" (68%). Among companies whose relocation was not related to business contraction, in many cases these relocations involved departures from older buildings with inferior seismic resistance in favor of newly constructed facilities. In addition to the conventional three central wards, popular sites for relocation also included Shinagawa, Koto and other peripheral wards. Against a background of shrinking office demand due to the poor economy, tenants are shifting to buildings with lower rents, and vacancies are rising in existing buildings that lack a competitive edge.

[Demand-Supply Balance]Demand Will be the Key to the Market in the Five Central Wards

The increase in vacancy rates in the 5 central wards in 2009 was the result of a sharp contraction in demand. This contrasts with the situation in 2003, when vacancy rates were boosted temporarily by a large influx of new supply. The key to a recovery in the office market will be the creation of net new demand. For example, to lower the vacancy rate to the 4% level, it is estimated that it will be necessary to generate approximately 720,000 m^2 in new demand. This is equivalent to about two years of growth in demand at 2004 levels.

If the economy is slow to recover, the office market in the 5 central wards will remain severe. Given that new supply will grow in peripheral areas in 2011 and 2012, it is likely that we will see an outflow of demand from the 5-ward area. On the other hand, there is a shortage of superior buildings in the 5 central wards that meet tenant needs in terms of earthquake resistance, security, and energy efficiency, so once it becomes clear that an economic recovery is underway the market will recover quickly, with these types of buildings leading the way.

For more details please see our *"Real Estate Investment Review, Spring 2010".*

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