


WTC Attack and Real Estate Market

Staff Writer: Hirobumi Ohno

The last week's Topics was focused on the impact of WTC attack on capital flow, however, today I would like to study its impact on real estate market.

According to the report by Jones Land LaSalle, approximately 25.7 million sf (approx. 720,000 tsubo) of Manhattan office area was lost by this tragedy (which is 18.5% of office area in NY downtown and 7.8% of Manhattan as a whole). 12.7 million sf (approx. 357,000 tsubo) was destroyed completely, 2.3 million sf received fatal damage, 5 million sf requires over a year for restoration, and 5.7 million sf could recover within a year.

With the US economy downturn, 26 million sf of office space was said to be vacant or sub-leased in Manhattan office market prior to this attack. The impact of this attack is already effecting the REIT market. The REITs which hold large office space in and around Manhattan, such as Vornado Realty Trust and Mack-Cali Realty Corp., are traded in the highest value of past 52nd week at the end of September.

What would be the impact of this attack on international real estate market, including Japan? Tenants around the world may delay signing a new lease because of uncertainty. Large supply of large-scale office buildings are expected to take place in Tokyo in coming years, known as "2003 issue". A supply of some 560,000 tsubo of office space is expected in 2003 alone. In Tokyo, the demand of office spaces have mainly been from IT related companies and foreign capital companies until recently, and impact of this attack may have a negative effect on the Japanese real estate market when IT related companies are facing a downturn.

Secondly, an investment capital from foreign countries into Japanese real estate market, such as the US, is also being under close watch. Some indicates that it may decrease while others see it to increase in order to diversify their investments. There are not much changes yet to be seen.

Other effects in the US market are that decentralization of office space, decrease in new lease contact to high-rise buildings, and increase in demand for suburban offices. Interesting effects were that increase in demand for tele conference facilities, equipments, and broadband connections, due to the expected decrease in business trips.

While keeping the close watch of real estate market, I would like to express my deepest sympathies to all the people affected by this tragedy and hope for the quick and sound recovery of NYC, where I lived for six years until last year.