Survey of Tokyo Office Market Trends (2012)

Shortly after the Great East Japan Earthquake struck the Tohoku region on March 11, 2011, office vacancy rates in Tokyo’s 5 central wards (Chiyoda, Chuo, Minato, Shinjuku, Shibuya) recorded an all-time high of 9.19%. At the time there were widespread fears that the accidents at the Fukushima nuclear power plant and subsequent power shortages would cause a contraction in Tokyo's office leasing market. In fact, however, office demand rose in 2011 for the first time in four years, and there are signs that the market is beginning to stage a recovery.

A large influx of new office supply is scheduled to come onto the market during 2012, particularly in central Tokyo, and if demand remains at the 2011 level there is a possibility that the office vacancy rate in Tokyo’s 5 central wards could rise further. However, companies are re-evaluating their facility strategies in light of the Great East Japan Earthquake, and there is a high likelihood that this will stimulate demand for large-scale relocations. The influx of a large supply of new, high-grade, relatively reasonably priced office buildings capable of meeting this demand may be timely, and the demand-supply balance could recover more quickly than is generally expected.

To determine office market trends in Tokyo’s 5 central wards over the next 4 years, we investigated new supply of large-scale office buildings (floor space greater than 1,000 tsubo) in Tokyo’s 23 wards from 2012 through 2015, along with tenant relocation trends in 2011. We also examined why vacancy rates are rising in poorly performing office buildings.

New supply trends in Tokyo’s 23 wards
- New supply is expected to peak at 610,000 tsubo in 2012 (1.56 times the recent 10-year average).
- The top three wards will be Chiyoda, Minato and Chuo. Seventy percent of new supply will be concentrated in the three central wards.

Tenant relocation trends in the 23-ward area
- The ratio of large-scale relocations declined in 2011, but is likely to gain momentum in 2012 and thereafter.
- Most large-scale relocations were within the 5 central wards.
- The three most popular destinations were Nishi-Shinjuku, Uchisaiwaicho/ Kasumigaseki, and Hamamatsu-cho/ Shiba-Koen.
- A majority of companies gave “consolidation of office facilities due to organizational restructuring” as their reason for relocation.
- Large-scale relocation demand was driven primarily by the Information/ Communications/ IT sector.

Current state of the office leasing market in Tokyo’s 5 central wards
- The average vacancy rate recorded an all-time high immediately after the Great East Japan Earthquake, and still remains elevated.
- The total stock of floor space in the office leasing market increased in 2011 for the first time since 2009 (80,000 tsubo).
- Net new demand grew in 2011 for the first time in 4 years (66,000 tsubo).
Future trends in the 5-central wards, and the current polarization in the office market
- Net new supply will climb sharply in 2012 (up 150,000 tsubo), but will increase by only 13,000 tsubo in 2013.
- If demand remains at the same level as in 2011, the average vacancy rate could reach 10% in 2012.
- However, the composition of office vacancies shows a widening gap between facilities operating at high capacity and those operating at low capacity.
- Forty-four percent of the buildings with vacancy rates above 50% are obsolete, and are in the process of becoming dead stock. These buildings are inflating the overall vacancy rate.
- The average vacancy rate will not improve until 2013, but demand for high-quality office facilities is already recovering.

For more details see our “Real Estate Investment Review, Spring 2012”

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