

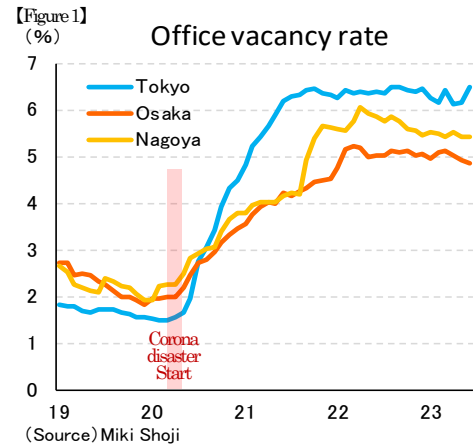
Economic Short Comment (3 Aug 2023)

The shrinking trend of Tokyo's office market continues unabated
 ~ The difference with Osaka, Nagoya, and Fukuoka is clear ~

● Delayed recovery of office market conditions

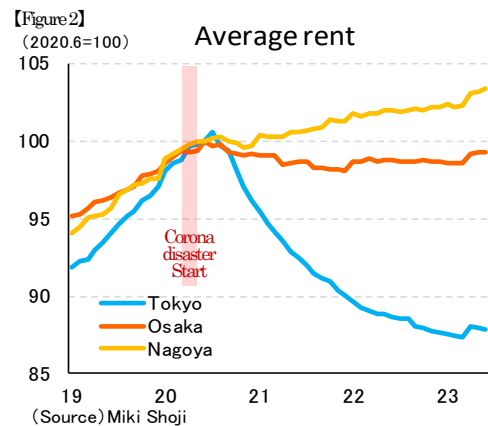
With the spread of post-Corona movements among companies and consumers, a gradual increase in land prices can be seen, bringing a bit of brightness to the real estate market. However, the recovery of the office market is notably slow. Looking at the disclosed data of Miki Shoji, the office vacancy rate clearly shows this trend. The office vacancy rates in Tokyo, Osaka, and Nagoya remain high, with hardly any downward trend (Figure 1).

In particular, the office vacancy rate in Tokyo has remained high, with levels exceeding 6% continuing since the latter half of 2021, compared to the pre-Corona levels of around 1%. Similarly, in Osaka and Nagoya, levels around 5% continue, with hardly any downward trend seen.



● Trends in average rent

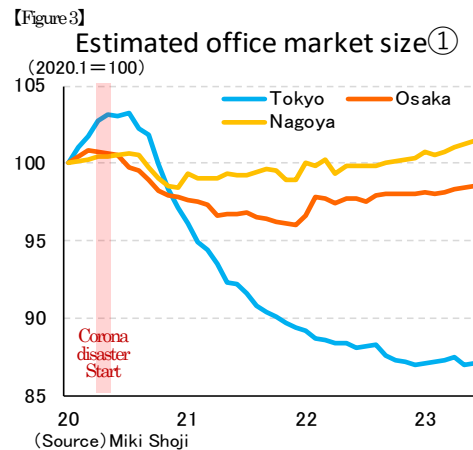
On the other hand, when looking at the movement of average rent, the view changes slightly. Unlike Tokyo, where rent continues to fall, in Osaka and Nagoya, rents are flat or on the rise (Figure 2). In particular, Nagoya has seen almost no downturn due to the Corona disaster, and the situation remains strong at the moment. It's difficult to judge the market conditions in Nagoya, where "office vacancy rates are flat, and average rents are rising," but given the rising rents, demand can at least be considered strong. On this point, Tokyo continues to see falling rents, making it hard to evaluate positively.



● Office market size in each region

Based on the disclosed data from Miki Shoji, the operating floor area (rental area minus vacancy area) is calculated, and by multiplying this by the average rent, the size of the office market in each region can be estimated.

If we take the market size as of January 2020, before Corona, as 100 and look at the subsequent trend, the differences between regions become clear. Figure 3 targets major cities such as Tokyo, Osaka, and Nagoya, and Figure 4 compares other cities, but the differences in trends between these cities should be clear at a glance.



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For example, while Tokyo continues to show a declining trend, hovering around 87, Osaka and Nagoya show a slight increase in recent trends. Furthermore, the trend of market expansion is clear in other cities, with Fukuoka exceeding 110, and Yokohama and Sapporo also showing strong performance.

● **The delayed recovery of Tokyo**

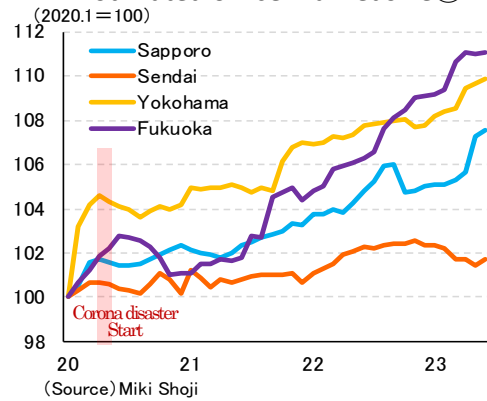
Looking at this, the delayed recovery of Tokyo stands out, and one factor could be the increase in new supply since the Corona disaster. Even in a market situation that is not perfect, the increase in new supply leads to an oversupply, which cannot be denied.

However, such movement is not only in Tokyo. Despite the supply increase rate in Fukuoka and Yokohama exceeding that of Tokyo, as shown in Figure 4, the overall market expansion continues.

One point to note here is the movement of company headquarters relocation. As various surveys clearly show, since the Corona disaster, there has been an increase in companies relocating their headquarters from Tokyo. In addition to the deterioration of market conditions due to the Corona disaster, the addition of relocations from Tokyo may be hindering the recovery of demand. In addition to this, the impact of telework implementation, which is common in large cities, should also be noted, especially as recovery is somewhat delayed in Osaka.

Taking these points into consideration, it cannot be judged that Tokyo's office market conditions have entered a recovery phase, and it can be said that it is difficult to be optimistic about the future.

【Figure 4】 Estimated office market size②



【References】
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