

# Real Estate Analysis Report

## Osaka Office Market - Present Conditions and Forecast

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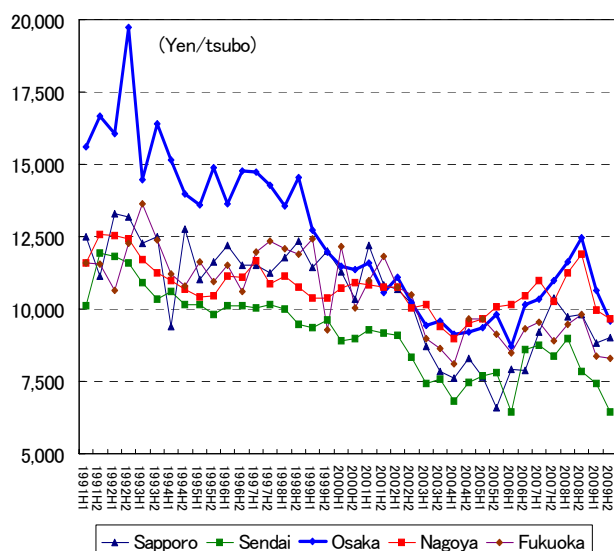
### Preface <sup>1</sup>

The Osaka<sup>2</sup> office market has been severe similar to other major cities. Of particular concern is the large new office supply slated to go online from 2012 in the Umeda North Yard and other developments. We overview Osaka's office market conditions and forecast rent prices to 2014.

### 1. Office Rent and Vacancy Rate

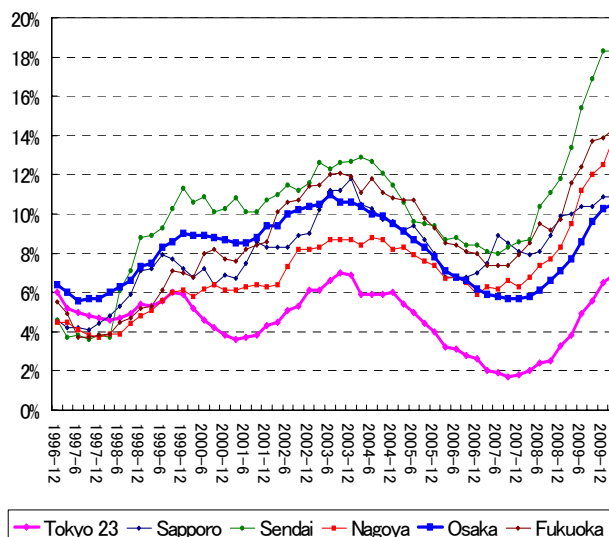
Since the collapse of the bubble economy in the early 1990s, the office rent in Osaka has declined by approximately one-half (Figure 1). In the most recent data, the rent price for 2009H2 fell to 9,600 yen/tsubo, <sup>3</sup> down 23% from the recent peak of 12,500 yen/tsubo in 2008H2. This decline is the second worst among the five major cities excluding Tokyo. The vacancy rate rose to 10.5% in March 2010, reaching the worst level since 1996 (Figure 2).

Figure 1: Rent Price Indices in Major Cities



Source: NLI Research Institute

Figure 2: Vacancy Rates in Major Cities



Source: CB Richard Ellis Research Institute

<sup>1</sup> The [original Japanese version](#) was released on February 26, 2010. The author thanks J. Parker for helping edit the translation.

<sup>2</sup> For Osaka real estate market conditions, see Jones Lang Lasalle, "[Osaka Grade A Office Market: Introduction](#)," Nov. 6, 2009.

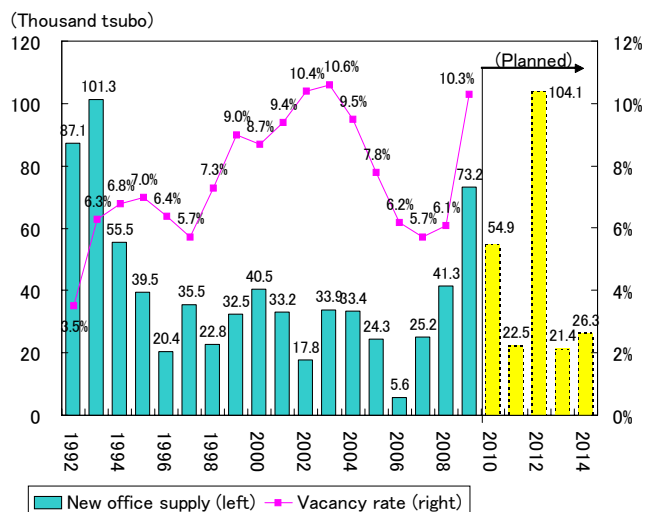
<sup>3</sup> The "tsubo" is a Japanese measure of area equal to approximately 3.306 square meters.

## 2. New Supply of Office Buildings

The planned new office supply in Osaka is surging, including 75,000 tsubo from the Umeda North Yard project. The new supply is at the highest level since the collapse of the bubble economy (Figure 3). Although Osaka did not have significant new office supply from 1994 to 2008, the vacancy rate surged from 5.7% in 1997 to 10.6% in 2003. This volatility of the vacancy rate is attributed to the sensitivity of office demand to the stagnant economy.

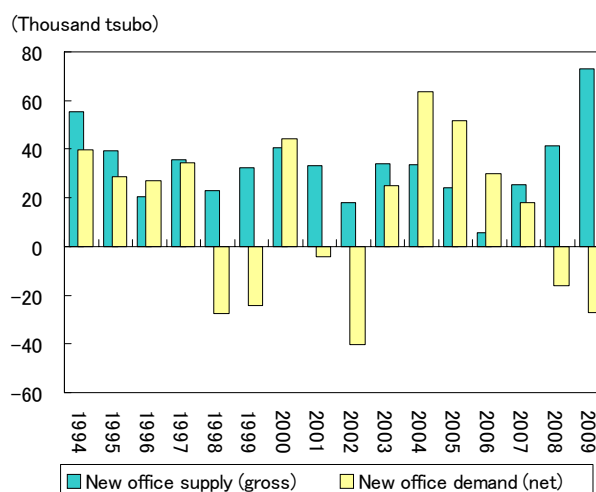
Since 1994, new office supply has been at approximately 33,000 tsubo per year, while new demand has been only 14,000 tsubo per year (Figure 4).<sup>4</sup> In the past 16 years, we can find only five years in which new office demand surpassed new supply.

**Figure 3: New Office Supply and Vacancy Rate in Osaka**



Sources: CB Richard Ellis Research Institute and NLI Research Institute

**Figure 4: New Office Supply and Demand in Osaka**



Source: CB Richard Ellis Research Institute

## 3. Demand for Office Space

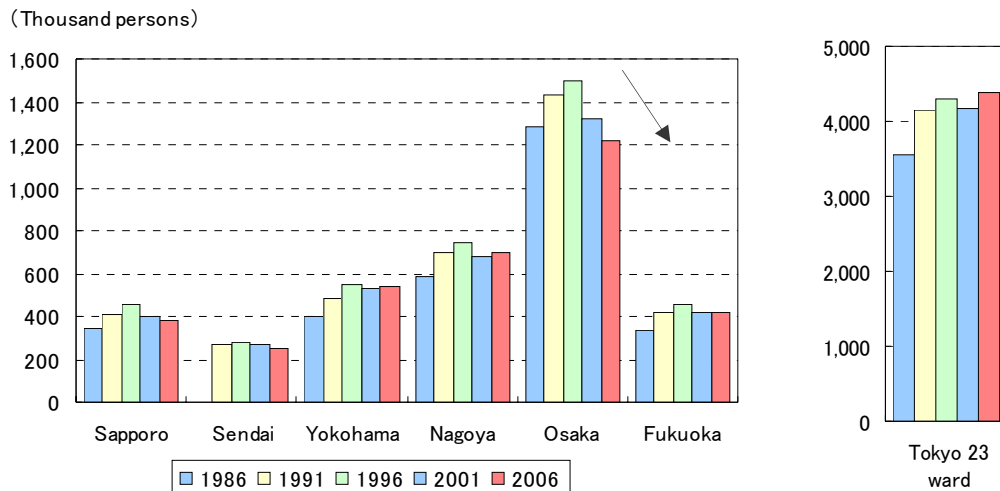
### (1) Decline of Number of Office and Sales Workers

Between 1996 and 2006, the number of office and sales workers in Osaka decreased by 277,000 or -18.5%, which was the biggest decline among the seven major cities in Japan (Figure 5).<sup>5</sup> Sapporo was second with a decline of -70,000; in contrast, Tokyo 23 ward increased by 66,000.

<sup>4</sup> New office supply is expressed as a gross amount because demolished old office buildings have not been deducted, while new demand is expressed as a net amount.

<sup>5</sup> The data for number of office and sales workers was obtained from the *Establishment Census of Japan*. Office worker data from the *National Census* is regarded as imprecise due to the drastic increase in the category of "labour force status not reported."

**Figure 5: Number of Office and Sales Workers in Major Cities**



Source: Statistics Bureau, *Establishment Census of Japan*.

(2) Shift-Share Analysis of Change in Employment

Below we examine the decrease of office and sales workers in Osaka by means of shift-share analysis. Shift-share analysis separates employment growth into an industrial mix component and a regional shift component (Figure 6).<sup>6</sup>

**Figure 6: Shift-Share Analysis of Growth Rate of Office and Sales Workers in Major Cities**

	1986-1991			1991-1996			1996-2001			2001-2006		
	Compared to national			Compared to national			Compared to national			Compared to national		
	average	Industrial mix	Regional shift	average	Industrial mix	Regional shift	average	Industrial mix	Regional shift	average	Industrial mix	Regional shift
Sapporo	4.1%	0.5%	3.6%	1.2%	0.7%	0.5%	-6.0%	0.7%	-6.7%	-2.5%	0.1%	-2.6%
Sendai				-4.0%	0.8%	-4.7%	2.3%	0.1%	2.2%	-5.2%	0.0%	-5.2%
Yokohama	7.0%	2.0%	5.0%	3.3%	-0.4%	3.7%	3.4%	1.2%	2.2%	2.2%	2.5%	-0.3%
Nagoya	6.0%	-1.3%	7.4%	-2.9%	1.0%	-3.9%	-1.4%	0.0%	-1.5%	2.5%	-0.1%	2.6%
Osaka	-3.1%	-0.8%	-2.4%	-4.3%	1.6%	-5.8%	-4.8%	0.5%	-5.3%	-7.2%	-0.9%	-6.3%
Fukuoka	8.6%	-0.7%	9.3%	0.4%	0.1%	0.3%	-1.5%	0.5%	-2.1%	0.8%	-0.4%	1.2%
Tokyo 23 ward	2.2%	1.0%	1.2%	-5.4%	1.6%	-7.0%	3.9%	1.2%	2.7%	5.1%	0.6%	4.5%

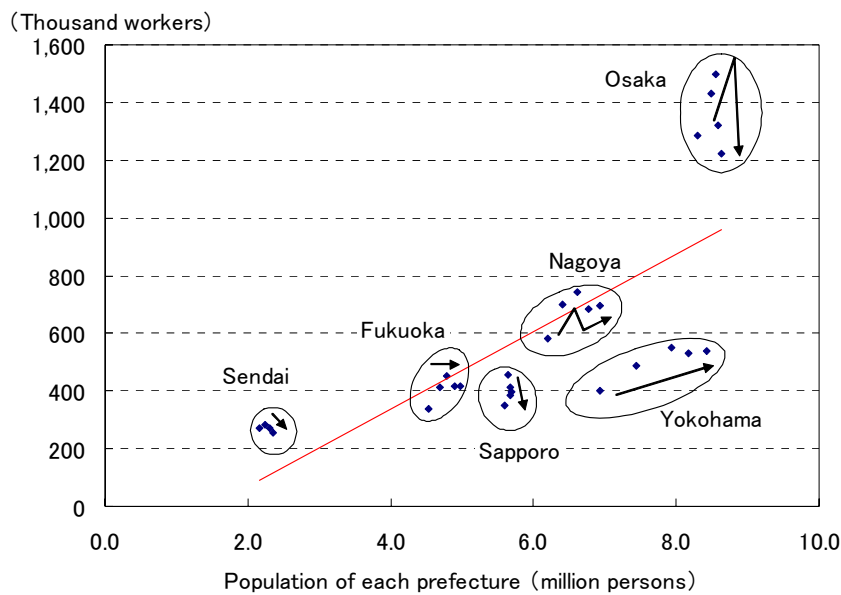
Source: NLI research Institute

<sup>6</sup> Industrial mix refers to local employment growth attributable to national industry growth rates, while regional shift is a residual component that represents regional competitiveness. For a detailed explanation, see Georgia Tech Economic Development Institute, *Shift-Share Analysis (Mix and Share Analysis)*.

The results show that: (1) Osaka has trailed behind the nation in employment growth over all four periods since 1986; (2) from 2001 to 2006, Osaka's industrial mix component was the worst of the seven major cities, indicating a lack of growth industries; (3) Osaka's regional shift component has been negative since 1986, indicating a persistent lack of regional competitiveness.

Compared to major cities other than Tokyo, Osaka has a high concentration of office and sales workers relative to the prefectural population (Figure 7). The large deviation from the regression line suggests a high specialization and leading presence on office and sales sectors among cities outside of Tokyo. Since 1996, however, its presence has been sliding due to the decrease of office and sales workers. In particular, office restructuring and Internet growth may have contributed to the decrease of office and sales workers in Osaka by reducing acceptable staffing levels at Osaka branch offices.

**Figure 7: Number of Office and Sales Workers in Major Cities Relative to the Population of Each Prefecture (excluding Tokyo 23 Ward)**



Note: The regression line is shown in red. Arrows show the time series trend.  
Source: Statistics Bureau, *Establishment Census of Japan*.

#### 4. Forecast for Office Rent Price in Osaka

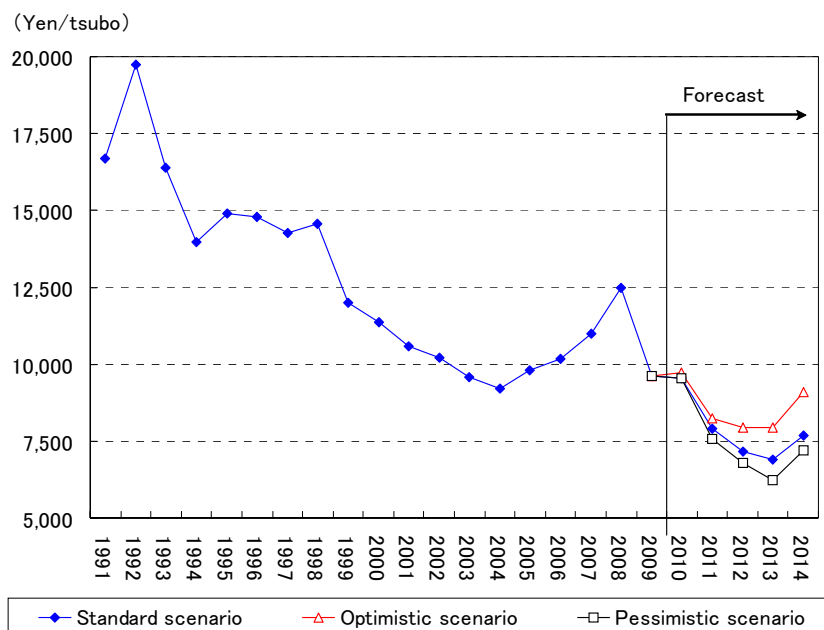
To forecast the office rent price in Osaka, we first estimated the vacancy rate function and rent price function using the number of office and sales workers, office floor supply, real GDP growth rate among others as independent variables. Then we forecast the office rent price by substituting in the forecast values of the independent variables. The real GDP growth rate

forecast was prepared by NLI Research Institute.<sup>7</sup>

According to the standard scenario forecast, the rent price will drop sharply in 2011 and start to rise in 2014. The rent price in 2013 is forecast at 7,000 yen/tsubo, or 44.6% below the last peak in 2007 (and 28% below the level in 2009) (Figure 8). After declining -23.0% in 2009, the office rent price is forecast to decline -0.5% in 2010, -17.3% in 2011, -9.2% in 2012, -3.7% in 2013, and to rise +11.3% in 2014.

In addition, we estimate that the new supply from Umeda North Yard will have a limited impact of less than 300 yen/tsubo on the rent price. This is because lack of demand is a more serious problem in Osaka than oversupply, as seen in Figure 3 and Figure 4.

**Figure 8: Forecast for Office Rent in Osaka**



Source: NLI Research Institute

## Conclusion

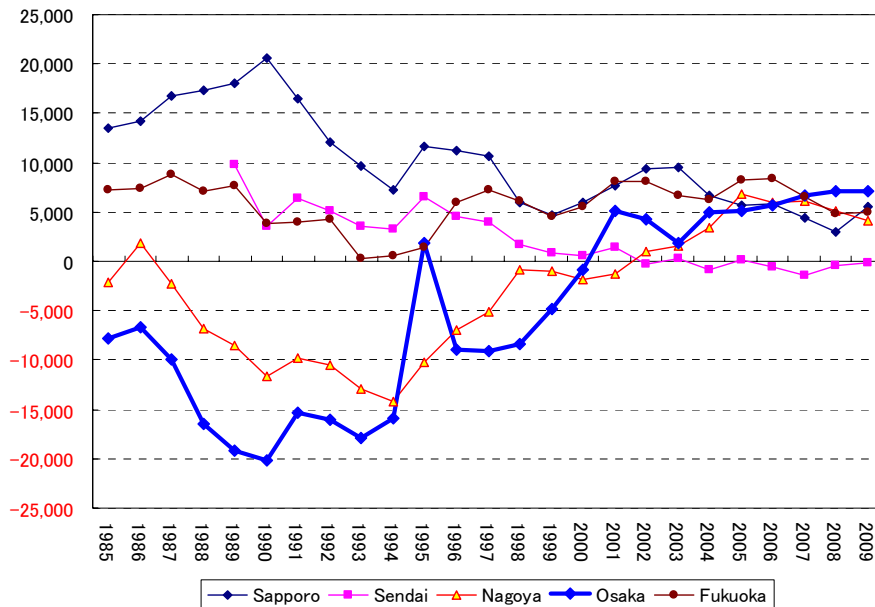
Many people are concerned about the office market outlook for Osaka pending completion of the Umeda North Yard development from 2012. While the new supply will undoubtedly have some impact, our estimate shows that lack of office demand is a more critical problem for the Osaka market.

<sup>7</sup> The NLI Research Institute medium-term economic forecast is available in English. See Koichi Haji, “[Global Financial Crisis Increases the Presence of Emerging Markets—Medium-Term Economic Forecast \(FY 2010—2019\).](#)”

Since 1996, the number of office and sales workers in Osaka has decreased drastically. The shift-share analysis results attribute the decline to both lack of growth industries and lack of regional competitiveness. In particular, instead of contributing to merits of scale, the traditionally large number of office and sales workers seems to have prompted a wave of restructuring and layoffs of office workers.

In order to enhance the city's presence and stimulate ongoing growth of demand for office workers, new city management concepts are needed such as establishing a special economic zone. Since 2001, Osaka has enjoyed net migration growth from other cities and prefectures of about 7,000 people per year. To further increase net migration and stimulate office demand, the city needs to attract more growth industries and young workers, and to construct a closer network with Asian cities.

**Figure 9: Net Migration of Selected Major Regional Cities**



Source: Statistics Bureau, *Annual Report on Internal Migration in Japan Derived from the Basic Resident Registers*.