

Real Estate Analysis Report

Direct Station Connections and Retail Complexes, Features of Latest Tokyo Grade-A Office Buildings

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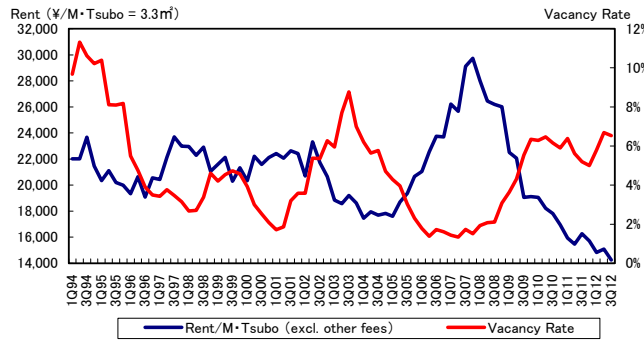
Summary

- The Tokyo office vacancy rates remained high and very large sized office building rents in the Tokyo central three wards plunged to a historic low, as several large buildings were supplied mainly in the CBD in the first half of 2012. However, the pace of new supply is slowing down in the second half, and the grade-A building rents are recovering based on relatively low prices and tenant preference for buildings well prepared for disaster-prevention and energy-saving.
- In the first half of this year, “Shibuya Hikarie” garnered attention both as a new retail complex and a skyscraper office which secured rents as high as those in the Marunouchi area. Just like “Shibuya Hikarie,” the latest Tokyo grade-A office buildings have features such as direct station connections and retail complexes.
- In Tokyo, more than a few stations have very convenient access and large passenger numbers as many train lines cross each other forming the world’s most advanced urban train network. Tenants in station-connected buildings can enjoy shopping, dining and other services in and around their offices. Furthermore, considering recent intensifying weather conditions, it is likely that station-connected buildings will become even more popular hereafter.
- Recently, an increasing number of grade-A buildings has been developed in Tokyo, and those stocks have become pretty sizable. As the competition within the grade-A category becomes more intense, factors such as access to the closest station and surrounding commercial development will be increasingly important in addition to the inherent value of each station and area. Though competing against Asian super skyscrapers is tough in terms of height and size, Tokyo grade-A buildings are superior in such aspects as disaster-prevention and energy-saving, advanced transportation networks, convenience of station connections and retail store concentration. Promoting these superior qualities to global companies could be beneficial for the Asian headquarters special zone concept which the Tokyo metropolitan government is initiating.

1. Disaster Prevention and Energy Saving

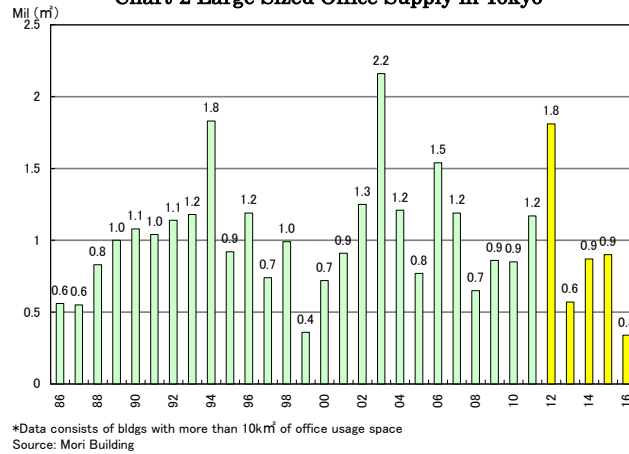
The Tokyo office vacancy rates remained high and very large sized office building rents in the Tokyo central three wards plunged to a historic low (Chart-1), as a number of large buildings were supplied mainly in the CBD in the first half of 2012 (Chart-2).¹

Chart-1 Office Rents and Vacancy Rates (Tokyo Central Three Wards)



Very Large Sized Buildings (standard floor larger than 200 tsubos)
 Source: Vacancy Rate·Sanko Estate, Rent·Sanko Estate and NLI Research Institute

Chart-2 Large Sized Office Supply in Tokyo



However, the pace of new supply is slowing down in the second half, and the grade-A building² rents are recovering based on relatively low prices.³ As grade-A rents declined more than other smaller sized buildings since the financial crisis in 2008, the rent gap between grade-A buildings and others has shrank to the smallest level in many years.

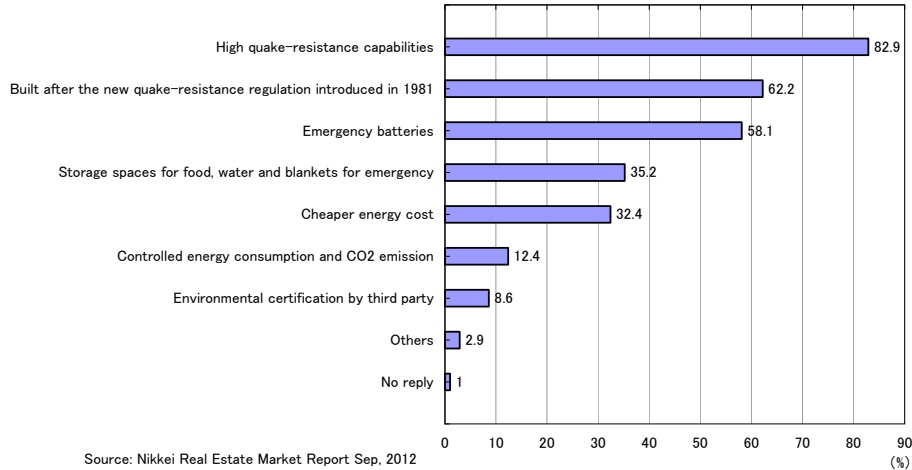
Moreover, tenants have been more sensitive to disaster-prevention and energy-saving since the earthquake in 2011 (Chart-3), and those requirements support the grade-A building market. New grade-A buildings have excellent disaster-prevention capabilities with quake-resistant structures, emergency batteries and storage space for food and water. In addition, they are well equipped for energy-saving, such as low-e glass windows and LED lighting in shared spaces, which are already common, moreover, LED lighting even in tenant room spaces and double skin curtain wall facades have become common.

¹ Toru Matsumura, “[Japanese Property Market Quarterly Review, Second Quarter 2012:Signs of Recovery in Tokyo Grade-A Office Rents](#)” in Real Estate Analysis Report, NLI Research Institute, August 6, 2012.

² According to JLL, the Tokyo grade-A rents increased by 1.4% q-o-q for the first time in 17 quarters.

³ Higher-spec buildings within the very large building category, for reference, Sanko Estate Grade-A-Office Guidelines, urban area Tokyo five wards, main office areas and other specially integrated areas, total floor area more than 33,000 m², main floor size more than 990 m², building age 15 years or less (including some well-refurbished older buildings), facilities ceiling height of 2.7m or more, individual air-con, quake resistance, environmental friendliness.

Chart-3 Tenant Requirement for Disaster-Prevention and Energy-Saving



Furthermore, because grade-A buildings are wide floored and efficiently designed, they are suitable for aggregating separated group companies into one building. It is sometimes possible to hold down the total rent cost by reducing the total rented space, even when moving to a grade-A building which has higher price per square meter.

2. Features of Latest Grade-A Buildings

In the first half of 2012, not only office buildings but also several retail complexes opened and garnered a lot of attention in Tokyo, such as “Shibuya Hikarie,” “Tokyu Plaza Omotesando-Harajuku,” “DiverCity Tokyo” and “Tokyo Skytree Town.”

Among the above, “Shibuya Hikarie” is a skyscraper office with topical retail stores and a theater on lower floors. The office sections have secured rents as high as those of the Marunouchi area, Tokyo’s top office area, with leasing including a famous internet company DeNA as a main tenant.

“Shibuya Hikarie” is outstanding in the Tokyo office market as it is located in Shibuya where large sized office buildings are rare, and represents the latest grade-A buildings in terms of direct connection to a station, retail complex development, high-spec grade and tenants with growing companies.

In a list of the latest grade-A office buildings including those planned for in coming years, most buildings have features of direct station connections and retail complexes just like “Shibuya Hikarie” (Chart-4). Furthermore, some are not only retail but also residential or luxury hotel complexes.

Chart-4 Tokyo Latest Grade-A Office Buildings Including Plans in Coming Years

Name	Year	Floors	Ward	Station	Direct Connection	Retail·Etc. Complex	Resi·Hotel Complex		
Mitsubishi UFJ Bank Otemachi Building	2016	29/B5	Chiyoda	Otemachi	○	○	○		
Otemachi 1-chome Chain Project 3rd	2016	31/B4			○	○	○		
Risona Maruha Building	2015	22/B5			○	○	○		
Mitsui Sumitomo Bank Head Office East Bldg. Plan	2015	29/B4			○	○	○		
Nippon Life Insurance Otemachi Building	2014	23/B3			○	○	○		
Otemachi 1-6 Plan	2014	38/B6			○	○	○		
Yomiuri News Paper H.Q. Rebuilding Plan	2013	33/B3			○	○	○		
Tokiwabashi Area Redevelopment	????	??/B?			○	○	○		
Tekko Building Rebuilding	2015	25/B4			○	○	○		
Rebuilding Plan of Hibiya Mitsui Bldg and Sanshin Bld	????	??/B?			○	○	○		
Ochanomizu Sora City	2013	23/B2			○	○	○		
Waterras Tower	2013	30/B2			○	○	○		
Fujimi 2-chome 10 Redevelopment	2014	30/B2			○	○	○		
Nihonbashi Muromachi East District 2-3	2013	23/B5			○	○	○		
Nihonbashi 2-chome Development Block C	2018	35/B6	Chuo	Mitsukoshimae	○	○	○		
Nihonbashi 3-chome Development Block E	2017	36/B4			○	○	○		
Kyobashi 2-chome West District Redevelopment	2015	37/B3			○	○	○		
Kyobashi 3-1 Project	2013	24/B4			○	○	○		
Kyobashi 2-chome Project	2013	22/B3			○	○	○		
Ginza 6-chome District 10 Development	2017	12/B6			○	○	○		
Kabukiza Redevelopment Project	2013	29/B4			○	○	○		
Kioicho Project	2016	36/B2			○	○	○		
Loop Line 2 -Zone III Project	2014	53/B5			○	○	○		
Toranomon 4-chome Project	2016	??/B?			○	○	○		
Akasaka 1-chome Redevelopment	2015	43/B3	Minato	Tameike Sannow	○	○	○		
Roppongi 3-chome East District Redevelopment	2015	42/B5			○	○	○		
ARK Hills South Tower	2013	20/B4			○	○	○		
Hamamatsucho Station West Gate Redev. East B	2016	26/B4			○	○	○		
Hamamatsucho Station West Gate Redev. East A3	2016	42/B4			○	○	○		
World Trade Center Bldg Redevelopment	2018	42/B4			○	○	○		
Meguro Station District Redevelopment Project	2017	41/B0			Meguro	Meguro	○	○	○
Shibuya Station District Development Project	2020	43/B6					○	○	○
Shinjuku Station South Entrance Project	2016	33/B2			Shibuya	Shinjuku	○	○	○
Yotsuya Station District Development Project	2016	31/B0					○	○	○
Kasuga Korakuen Station District Redevelopment	2018	20/B2	Bunkyo	Kasuga·Korakuen	○	○	○		
Shibaura Water Reclamation Center Reconstruction	2014	32/B2			○	○	○		
Kita-Shinagawa 5-chome Redevelopment Project	2015	30/B2	Shinagawa	Shinagawa	○	○	○		
Nishi-Shinagawa 1-chome Redevelopment Project	2016	??/B?			○	○	○		
Toyosu 2-3chome Project District 2	2017	31/B?			○	○	○		
Toyosu 3-2 Block Project	2014	16/B2	Koto	Toyosu	○	○	○		
Aomi-Kita Area S·T Block (Palette Town)	2016	23/B2			○	○	○		
Aomi-Kita Area R Block Development	2014	20/B1			○	○	○		
JP Tower	2012	38/B4	Chiyoda	Tokyo	○	○	○		
Marunouchi Eiraku Building	2012	27/B4			○	○	○		
Otemachi Financial City South Tower	2012	35/B4			○	○	○		
Otemachi Financial City North Tower	2012	30/B4			○	○	○		
Palace Building	2012	23/B4			○	○	○		
Iino Building	2011	27/B5			○	○	○		
JA-Kyosai Building	2011	21/B2			○	○	○		
Mita Belljyu Building	2012	33/B4			○	○	○		
Akasaka K Tower	2011	30/B3			Minato	Akasaka Mitsuke	○	○	○
ARK Hills Sengokuyama Mori Tower	2012	47/B4					○	○	○
Shibuya Hikarie	2012	34/B4	Shibuya	Shibuya	○	○	○		
Shibuya Garden Tower	2012	24/B3			○	○	○		
Shinjuku East Side Square	2012	20/B2	Shinjuku	Higashi Shinjuku	○	○	○		
JR Minami Shinjuku Building	2012	18/B4			○	○	○		
Sumitomo Fudosan Shinjuku Grand Tower	2011	40/B3			○	○	○		
Shinjuku Front Tower	2011	35/B2			○	○	○		
Nakano Central Park South Tower	2012	21/B1	Nakano	Nakano	○	○	○		
Garden City Shinagawa Gotenyama	2011	9/B1			○	○	○		
Osaki Forest Building	2011	21/B2	Shinagawa	Gotanda	○	○	○		
DiverCity Tokyo Office Tower	2012	21/B1			○	○	○		
Tokyo Skytree East Tower	2012	31/B3	Sumida	Koto Tokyo Teleport	○	○	○		
				Oshiage	○	○	○		

* List consists of large offices more than 60k㎡ and completed in 2011 or later. Plans completing in 2013 or later are blue-colored.
 Partly guessed by NLI Research. Direct Connection includes bldgs with inside or within one minute outside walking access to nearest station.
 Retail Complex does not include buildings just with a CVS store, cafe or basement restaurants.
 Source: NLI Research Institute

Most buildings have plans to be directly connected to the nearest station, which has traditionally been observed at CBD terminal stations such as Tokyo, Otemachi and Shinjuku in Tokyo, Central in Hong Kong and Raffles Place in Singapore, where spacious underground malls are developed. At other stations, station connected retail stores are fairly common, but seldom are office buildings. Exceptions to this are huge complex projects with luxury hotels and retail malls such as “Tokyo Midtown,” “ICC” and “Island East” in Hong Kong and “Grand Gateway” in Shanghai which have station connected offices. On the other hand, most Tokyo grade-A buildings, not only those at huge

complexes but also independent offices, will be directly connected to the nearest station, and not only at terminal stations but also at many other non-terminal stations.

This increasing number of station connected offices suggests unprecedented pursuit of convenience. In western countries, where classical streets are commonly preserved, underground malls are seldom developed. Thus, station connected office buildings are very rarely observed and are usually limited to cities like Canadian cities with cold temperatures or specially developed new areas like Canary Wharf in London. Even in large Asian cities such as Seoul, Taipei, Shanghai and Beijing, station connected offices are not common, while station linked retail stores and some large sized complex projects are observed. For example, not many Shanghai top office buildings are connected to a station (Chart-5). Hong Kong and Singapore with the humid weather have station connected offices at the CBD terminal stations, but few at other stations.

Chart-5 Station Access of Shanghai Top Office Buildings

Name	Area	Access from Station	Remarks
Plaza 66	Pusi (Jing An)	Far (Several Minutes or More)	Luxury Retail Office Complex Super Skyscraper (2001)
Wheelock Square	Pusi (Jing An)	Close but Not Connected (Some Minutes)	Latest Super Skyscraper Office (2010)
Eco City	Pusi (Jing An)	Close but Not Connected (Some Minutes)	Latest Skyscraper Office (2011)
Kerry Centre Twr2, 3	Pusi (Jing An)	Connected (Some Minutes)	Latest Luxury Retail Hotel Office Complex Super Skyscraper (2012)
Platinum	Pusi (Xin Tian Di)	Close but Not Connected (Some Minutes)	Skyscraper Office Transacted Among Investors
ICC	Pusi (Huai Hai Zhong Lu)	Connected (On the station)	Luxury Retail Office Complex Skyscraper (2012)
IFC2	Pudon (Liu Jia Zui)	Connected (Some Minutes)	Luxury Retail Office Complex Super Skyscraper (2011)
SWFC	Pudon (Liu Jia Zui)	Far (Several Minutes or More)	Tallest Luxury Retail Hotel Office Complex Super Skyscraper (2008)
Jing Mao Tower	Pudon (Liu Jia Zui)	Far (Several Minutes or More)	2nd Tallest Luxury Retail Hotel Office Complex Super Skyscraper (1998)
Shanghai Tower	Pudon (Liu Jia Zui)	Far (Several Minutes or More)	Planned Tallest Luxury Retail Hotel Office Complex Super Skyscraper (2015)

Source: NLI Research Institute

3. Factors for the Increasing Number of Station Connected Office Retail Complexes

The increasing number of station connected offices might be the result of many years of intense competition under Japanese economic stagnation. However, some other factors are noticeable such as a high ratio of train commuting and long distance commuting in Tokyo. For example, Hong Kong also has a well developed urban train network; however, the commuter trains are never packed as is common in Tokyo, and many commuters use taxies, buses and trams. Singapore still has limited subway lines, and buses, taxies and cars are the main means of commuting. In China, Shanghai and Beijing, subways are very crowded during commuting hours, but still the ratio of train commuting is much lower than Tokyo, as many citizens live close to the city center and commute by buses, taxies and cars. In other Chinese and emerging Asian cities, urban train networks are not well developed yet and will be developed hereafter. With the progress of train networks and suburban residential area developments, the ratio of train commuting in those cities will rise and commuting conditions should come to resemble those in Tokyo.

With the world's most advanced urban train network, a number of train lines cross each other in Tokyo, and quite a few non-terminal stations have very large passenger numbers. Though difficult to compete against Asian super skyscrapers in terms of size and height, a number of new Tokyo grade-A buildings have superiority in terms of convenience.

Generally major stations have certain amounts of retail stores around them, and moreover, increasing numbers of shops are opening within stations. Tenants in station connected buildings can enjoy shopping, dining and other services around their offices. As those buildings can take advantage of prime locations that attract customers from other stations, they often have retail stores resulting in further tenant satisfaction.

Additionally, tenant preferences for office location have changed leading to an increase in the number of station connected offices. In the Tokyo CBD, Chiyoda Ward and Chuo Ward, uncountable numbers of office buildings are widely observed. Traditional Japanese companies have located their headquarters in such areas. On the other hand, relatively new companies in computer software and other industries such as DeNA have grown to play important roles in the office market as tenants. These new companies do not stick to the traditional CBD office areas, and prefer office buildings connected to a station with many retail stores even if the station is not located in a traditional office area.⁴ Actually, some of new grade-A buildings are located at stations in non-traditional office areas such as Ochanomizu, Iidabashi, Yotsuya and Nakano along the JR Chuo-Sobu line (Chart-4, 6). Other than these, Tokyo has quite a few stations which have large passenger and retail store numbers but no or only a few large office buildings around them yet (Chart-6). As Shibuya station has a plan to build a station connected super skyscraper office completing in 2020, it is possible that other stations will also have station connected office buildings in the future.

Furthermore, recent global warming has brought an increasing number of scorching summer days and freezing winter days, and localized torrential rains sometimes hit the streets. With this trend, it looks like station connected buildings which have shops and restaurants inside will become more popular hereafter, as tenants can stay comfortably unaffected by weather conditions. For example, because of the cold climate, Sapporo station has a spacious underground pass to protect passengers from the elements and an office building connected to the underground-pass is much more competitive than those that are not connected. Station connected buildings are also valuable in humid climates such as Hong Kong. Major buildings are connected to Central and Admiralty stations through underground passes and air conditioned walkways, which are also seen in other large development projects (Chart-7). It is likely that station connected buildings will become more popular even in Tokyo as in Sapporo and Hong Kong with intensifying weather conditions.

⁴ Other than DeNA which moved to “Shibuya Hikarie”, many examples are observed such as initial tenants in “Roppongi Hills” in the past and Rakuten which has a plan to move to “Futago Tamagawa Rise” in 2015.

Chart-6 Rents, Passengers, Retail Sales and Bldgs at Tokyo Major Stations

Station	①Rents JPYk/M/Tsubo ≒3.3㎡	②Passengers 10k/Day	③Retail Sales (bnJPY·2007)	④No. of Stn. Connected Bldgs (Incl. Bldgs Around)	Additionally Planned (Incl. Bldgs Around)	Total in Years (Incl. Bldgs Around)
Shinjuku	29	365	9,570	4(10)	1(1)	5(11)
Shibuya	33	302	4,406	1(5)	1(1)	2(6)
Ikeburo	24	252	5,481	0(0)	0(0)	0(0)
Tokyo	39	110	1,151	15(18)	2(2)	17(20)
Shinagawa	25	94	435	8(11)	0(1)	8(12)
Shinbashi	30	90	563	4(6)	0(0)	4(6)
Ginza	38	89	4,888	0(0)	1(1)	1(1)
Hamamatsucho	25	62	184	0(6)	3(3)	3(9)
Ueno	24	58	1,144	0(0)	0(0)	0(0)
Akihabara	22	57	1,443	2(3)	0(0)	2(3)
Tamachi	22	49	207	1(4)	0(0)	1(4)
Ochanomizu	26	46	611	0(0)	2(2)	2(2)
Otemachi	35	38	-	14(14)	7(7)	21(21)
Iidabashi	24	38	295	0(3)	1(1)	1(4)
Akasaka	26	37	212	3(6)	0(0)	3(6)
Ebisu	30	36	593	2(5)	0(0)	2(5)
Yotsuya	28	28	160	0(0)	1(1)	1(1)
Kinshicho	19	28	881	0(1)	0(0)	0(1)
Nakano	-	26	790	0(1)	0(0)	0(1)
Nihonbashi	27	25	4,927	2(2)	2(2)	4(4)
Kanda	24	25	244	0(1)	0(0)	0(1)
Osaki	22	25	38	3(7)	0(2)	3(9)
Kasumigaseki	31	23	-	2(5)	0(0)	2(5)
Kudanshita	25	22	153	1(3)	0(0)	1(3)
Harajuku	31	21	1,494	0(0)	0(0)	0(0)
Roppongi	26	21	421	4(4)	0(0)	4(4)

* ①Rents estimated in conditions "1min walk from stn. new bldg and std. floor 2,400㎡"
 ②Transfers are double-counted ③Retail sales data is as of 2007
 ④Bldgs larger than 60km excluding the old. Shinjuku does not include bldgs near Nishi Shinjuku
 Source: Some Railway Co.'s websites, CBRE, Retail Statistics by METI, NLI Research Institute

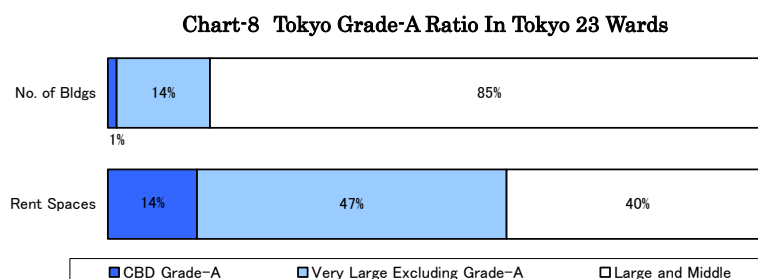
Chart-7 Air Conditioned Walkway from Stn. (Island East, Hong Kong)



Source: Swire Properties' Website

4. Final Note

Recently, three factors “close to station,” “new” and “large” have been regarded as critically important to office buildings, and thus, an increasing number of grade-A buildings have been developed in Tokyo. Though the number of grade-A buildings is still relatively small in the overall market, the accumulated stock size of them has become pretty sizable as each building is very large (Chart-8).



Considering most new grade-A buildings are to be connected to stations the competition within this category will intensify. Hereafter, factors such as access to the nearest station and surrounding commercial development will be increasingly important in addition to the inherent value of each station and area.

Though competing against Asian super skyscrapers is difficult in terms of height and size, Tokyo grade-A buildings are superior in such aspects as disaster-prevention and energy-saving, advanced transportation networks, convenience of station connection and commercial development. Promoting these superior qualities to global companies could be beneficial for the Asian headquarters special zone concept which the Tokyo metropolitan government is initiating.

*This report includes data from various sources and NLI Research Institute does not guarantee the accuracy and reliability. In addition, this report is intended only for providing information, and the opinions and forecasts are not intended to make or break any contracts.