

'97 Office Market Sees Generous, Continuing Improvement in Demand

Trends in FY96

In FY1996, high levels of supply and demand were maintained in the Tokyo metropolitan area apartment market, yielding solid growth. With a supply of around 83,000 new units, the high level of supply remained at the 80,000-unit level for the third successive year since 1994. Sales were also sustained by low interest rates and the rush in demand prior to the hike in the consumption tax, and the favorable 83.1% average rate of contracts in launching months in FY1996 outstripped the 78.5% of the previous year by approximately five percentage points.

In the fiscal 1996 Tokyo metropolitan area office properties market tenancy rates, primarily in prime buildings in leading areas of the city center, improved due to corporate acquisition of additional floor space brought on by declining rents. As of June 1996, the office building vacancy rate in Tokyo's 23 central wards was 6.9%, a 1.9% improvement over the previous year, according to Ikoma Data Service System Company, Ltd. Along with the amelioration in the vacancy rate, rents bottomed out and began to rise primarily for prime properties.

In macroeconomic terms the underlying decline in residential and commercial land prices continued in fiscal 1996, and on the basis of indices using pre-bubble 1983 as the starting point, prices have fallen below nominal GDP trends (see graph). However, prices for land in better locations have shown signs of leveling

off. As developers of apartment properties have stepped up residential land acquisition in the greater Tokyo area, primarily in the southwest of Tokyo and the eastern region of Kanagawa Prefecture, prices rebounded compared to 1995. In metropolitan area commercial properties, although a small number of transactions did not generate an overall sense that prices had bottomed out due to caution regarding new investments on the part of developers and life insurance companies, former National Railway sale properties purchased for prices exceeding advance estimates were one indicator that prices in some sectors had begun to level off.

Outlook for FY97

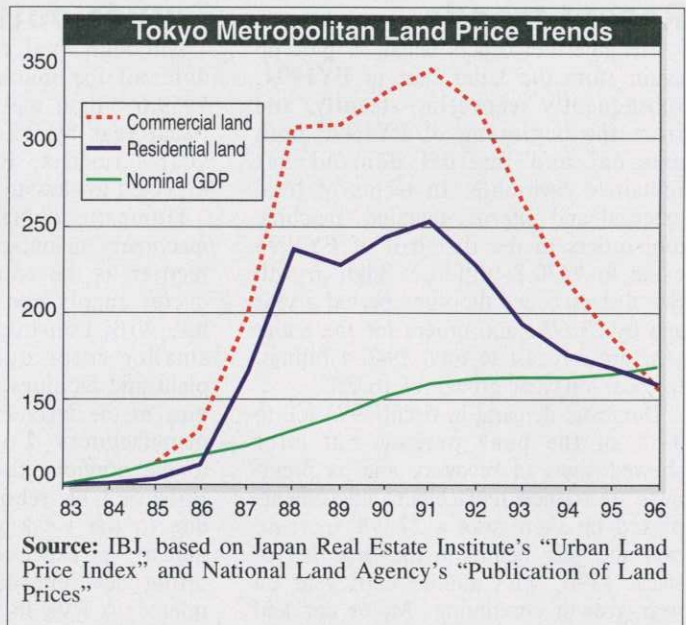
Because major developers are maintaining supply plans similar to those of the previous year a high level of supply will continue in the metropolitan apartment market in FY1997. But increasing competition in land acquisition is expected to result in a decline of about 10% compared to 1996, to around 74,000 units. As far as sales are concerned, however, a dropoff in the rush purchases of 1996 and more stringent Housing Loan Corporation loan requirements will produce a slight deceleration and low interest rates should sustain continued firm overall growth.

In fiscal 1997, an increased tightening in supplies due to a reduction of around 50% compared to 1996 in the supply of large office buildings should lead to a continuing improvement in supply and demand in the office building market in Tokyo's 23 wards. Meanwhile, signifi-

cant positive factors have not been noted in terms of demand and the tempo of the recovery is expected to remain gradual.

In fiscal 1997, land prices, especially for prime properties with attractive configurations in good locations, should continue to level off. There should be increasing sentiment that residential land prices will bottom out, particularly in Tokyo's 23 wards where demand for land for apartments is solid. As the commercial land prices converge on ROI level, variance in pricing should grow depending on the area or property and, while there will be a growing sense that prices have bottomed out for properties that offer better value, such as good access to transportation facilities and large sites, readjustment will continue for other properties for the time being. From a policy perspective, if specific policies, such as radical revision of the land tax system and an easing of floor space restrictions are implemented, the certainty that land prices have hit bottom should take hold more quickly.

(Maeda Kazuhiko, senior economist)



Improvement made in rate of tenants in crucial downtown Tokyo area office buildings.