

Rental Boom for International Tokyo

By Yoshinori Morino

International businessmen are showing great interest in a group of skyscrapers currently under construction in the Akasaka-Roppongi business zone in the heart of Tokyo.

"Ark Hills"

The redevelopment of this area is being undertaken primarily by Mori Building Co., a major rental office building company. This mammoth redevelopment project, christened "Ark Hills," covers 56,000 square meters (about 13.8 acres). Under construction on this sprawling site are a 37-story office building with four basement floors and total floor space of 182,100 square meters, a 36-story hotel, four residential buildings (about 500 units), a concert hall, and a TV studio. The total floor space will be 360,600 square meters (89.1 acres).

The Ark Hills development project is scheduled for completion in spring 1986 at an estimated cost of ¥100 billion (about \$417 million at the exchange rate of ¥240/\$1).

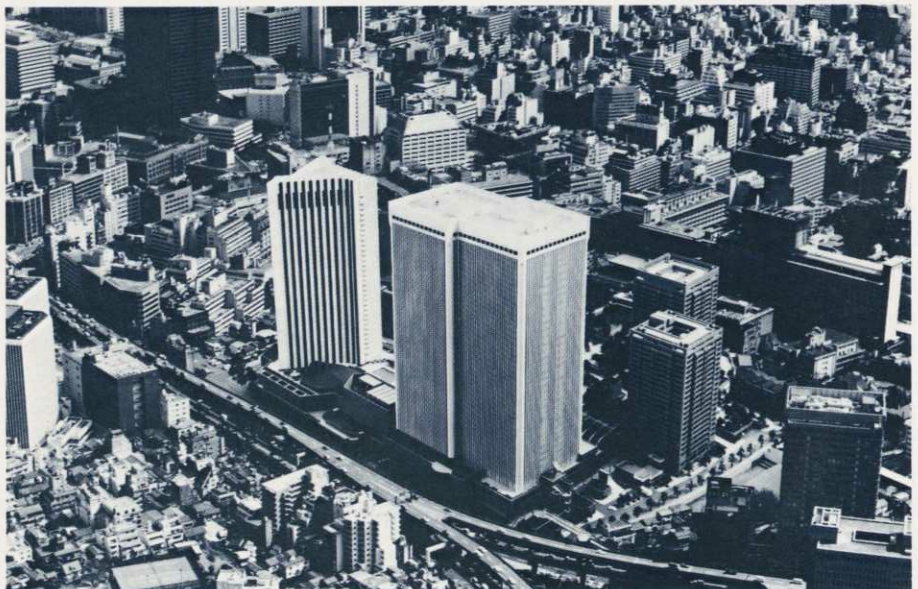
The Ark Hills project is drawing great attention because it symbolizes the current central Tokyo redevelopment boom. The 56,000 square meters of land involved makes this the biggest redevelopment project ever undertaken by the private sector. Its surrounding area is an international business zone home to the U.S. Embassy and such leading foreign enterprises as IBM Japan and Nippon Univac. It was Mori Building Co. that created the space for Ark Hills in the middle of this district. Office rental in Ark Hills is said to be almost as high (about \$140 per month per 3.3 square meters or 3.9 square yards) as in the Marunouchi area, Japan's premier business center. Despite the high rental, 90% of the office space has already been tentatively contracted, eloquent evidence of the brisk demand for office space in Tokyo today.

Resurgent demand

The rental office building industry in Japan developed around a core of real estate companies from the old *zaibatsu* (financial cliques), such as Mitsubishi Estate Co. and Mitsui Real Estate Development Co. At first, these companies built their own buildings and managed rental office buildings for their group companies. In pace with the country's high economic growth, they embarked on a full-scale office building management business in the 1960s. They redeveloped the Marunouchi business area by tearing down Western-style red brick buildings and replacing them with high-rise structures. In April 1968, the 36-story Kasumigaseki Building, Japan's first skyscraper, was completed adjacent to the Kasumigaseki government quarters. In the 1970s, skyscrapers were constructed one after another not only in such subcenters of Tokyo as Shinjuku and Ikebukuro, but in many other locations as well.

Consequent to the abrupt change in the Japanese economy's growth track after the first oil crisis in 1973, demand for office buildings slackened temporarily. Skyrocketing land prices, which had become a big issue throughout Japan, subsided. But in the mid-1980s, demand for office buildings in the heart of Tokyo began expanding rapidly again, resulting in what can be called a construction boom. The Ark Hills project is typical of the current construction rush.

According to a survey conducted by the Japan Building Owners and Managers Association, a nationwide association of rental office building companies, office buildings owned by its 1,539 corporate members as of 1984 totaled 2,396, with aggregate floor space of 27,330,000 square meters (6,754 acres). Compared with 10 years earlier, the number of buildings owned by the member companies had increased 46% and their aggregate floor space 55%. During a single 12-month period from 1983 to 1984, aggregate floor space jumped 11.3%. This in



Architect's drawing of completed Ark Hills project, symbol of the current central Tokyo redevelopment boom.

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turn reflected the sharp increase in demand for office buildings in the heart of Tokyo.

In its report "Tokyo Metropolitan Area Remodeling Plan" published in May this year, the National Land Agency predicted that demand for office floor space equivalent to 250 skyscrapers would be generated in the 23 wards of Tokyo alone by the year 2000. According to the basic data on which this report was based, office floor space in the 23 wards increased

from 2,050 hectares (5,066 acres) in 1972 to 3,470 hectares in 1981, and is expected to reach 8,610 hectares by the year 2000. This means that about 5,140 hectares of business office floor space will become necessary by the turn of the century.

Foreign firms cluster in three wards

One of the background factors causing this sharp increase in demand for office buildings in downtown Tokyo is the internationalization of the Japanese economy. Tokyo is evolving into an international center, both as an international financial center standing shoulder to shoulder with New York and London, and as a foothold for advancing into the Asia-Pacific market.

Foreign corporations are entering Japan one after another. As of March 31, 1984, companies with a ratio of foreign capital exceeding 50% numbered 2,256. Of these, 1,406 were located in Chiyoda, Chuo, and Minato wards in the heart of the city. A survey conducted by the Tokyo metropolitan government found 142 branches, sub-branches and agencies of foreign banks in Japan in 1981, of which as many as 118 were concentrated in the above three wards.

Consequently, foreign companies' demand for office space has been soaring. As many as 60% of the tenants of the Akasaka Twin Towers Building are foreign-owned companies in the information and services business. IBM's transfer of its Asia-Pacific section to Tokyo recently resulted in an inflow of 200 foreign staff members. The sudden influx caused a shortage not only of office space but also of housing for the foreign staff. Since IBM accepted high rentals, the prices of plush condominiums for foreigners shot up overnight.

As Tokyo grows into its role as an international financial center, including the expected creation of a Tokyo offshore capital market, demand for office buildings is expected to increase further. According to a survey conducted by the Nomura Research Institute, international financial institutions are currently concentrated in an extremely limited area within a one-kilometer radius from Tokyo Station. The advent of an international financial center is expected to generate demand for 400-1,150 hectares of office space.

Centralized demand

The second background factor causing the sharp increase in demand for

office buildings is the recent shift toward concentration of central control functions in Tokyo. The interim report on a comprehensive national development program announced by the National Land Agency in November 1984 pointed out that "high-level nucleus administrative functions, financial functions, and international functions will become increasingly concentrated in the central part of the Tokyo metropolitan area. Moreover, central Tokyo is increasing its importance as the place where information converges." As information needs become more sophisticated in tandem with the development of new types of media, the significance of Tokyo and its confluence of all kinds of information will become more pronounced than ever.

The number of companies headquartered in Tokyo's three wards increased by 2,300 to 93,000 during fiscal 1982-83. Companies with head offices in Tokyo's 23 wards account for 20% of all companies in the country. One-third of the business establishments in the information services industry are concentrated in the three central wards. This tendency is expected to intensify, not weaken, in the future. Demand for office space to accommodate head offices and sales foot-holds can only increase.

Enlisting the private-sector

To meet the expanding demand for office buildings in central Tokyo, many urban redevelopment projects are already under way. Headed by the redevelopment of the Akasaka-Roppongi area, many other projects are being started up, such as the one to turn the former ship-building yards and warehouses at Okawabata on the banks of the Sumida River into a housing and office building complex. The Takeshiba Pier area fronting Tokyo Bay is now being redeveloped into a hotel and office district. The sites of former Japanese National Railways facilities at Shiodome, Kinshicho, and Shinjuku Station, as well as state-owned land vacated with the closing of housing complexes for government employees in Shinjuku and Nishi-Toyama are going to be developed by private companies.

Not all the change is for the better. It is a cause for concern that while land prices in the rest of Japan have remained calm, there are signs that the value of property in central Tokyo is soaring again. Policy-making authorities are being urged to work to channel private-sector vitality into urban redevelopment by making every possible effort to hold down land prices. ●

Table 1
Rental Office Space Owned by Leading Rental Office Building Firms (As of March 31, 1984)

	(in 1,000m ²)
Mitsubishi Estate Co.	2,261
Nippon Life Insurance Co.	1,444
Mitsui Real Estate Development Co.	1,229
Sumitomo Life Insurance Co.	1,042
Mori Building Co.	712
Kowa Real Estate Investment Co.	610
Dai-ichi Mutual Life Insurance Co.	606
Sumitomo Realty & Development Co.	469
Asahi Mutual Life Insurance Co.	416
Meiji Mutual Life Insurance Co.	411

Notes: 1. The figure for Mori is as of the end of December 1983.

2. Figures of life insurance companies are limited to investment real estate.

Source: Compiled by Mitsui Real Estate Development Co.

Table 2
Location of Foreign Exchange Division Offices of Companies Participating in Foreign Exchange Market (1984)

	1km radius of Tokyo Station		Total
	Within	Outside	
City banks	10	3	13
Regional banks	20	6	26
Long-term credit banks, trust banks, etc.	11	2	13
Foreign banks	49	17	66
Foreign exchange brokers	9	0	9
Total	99	28	127

Source: Compiled from Japan Forex Club Membership List (August 1984)

Table 3
Foreign-Owned Companies in the Tokyo Metropolitan Area

	(companies)
Chiyoda ward	449
Chuo ward	281
Minato ward	676
Three-ward total	1,406
Metropolitan 20 wards (excluding three central wards)	497
Metropolitan area (excluding above 23 wards)	353
Total	2,256

Note: Companies with 50% or more foreign capital approved or registered as of March 31, 1984

Source: The National Land Agency