

Effects of Corona on the Osaka Office Market

(Author) **Kazumasa Takeuchi**

Chief Research Analyst

Kazumasa.takeuchi@daiwakantei.co.jp

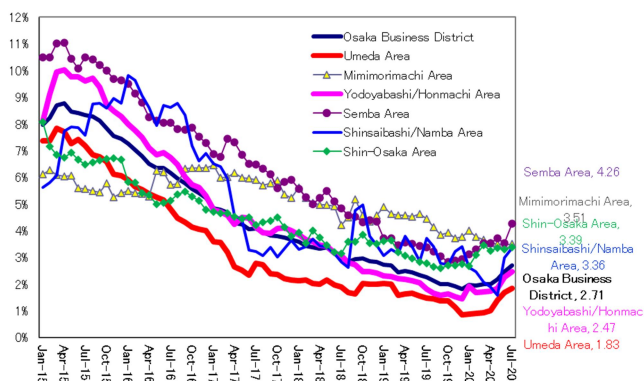
Research & Marketing Office

Amidst the spread of the new coronavirus outbreak, the office vacancy rate in Osaka is at its lowest level since 1992, which marked the end of the bubble economy. Meanwhile, asking rents continue to rise in the Umeda and Yodoyabashi/Honmachi areas. At this point in time, the overall sentiment of market participants in Osaka is not necessarily bearish about the current market, but with the penetration of remote working, as well as the planned expansion of supply from 2022, more and more people are concerned about the future of the office market. The following is a summary of the current Osaka office market and demand trends to provide a reference for outlook.

1. Osaka Office Market Overview

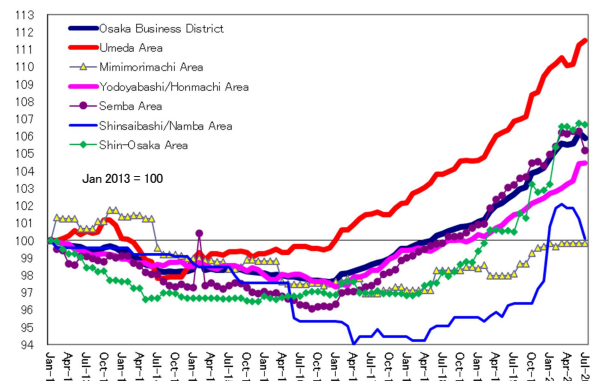
- At the end of July 2020, the vacancy rate in the Osaka Business District rose by 0.89% since the end of last year, to 2.71%. Compared to the same period, the vacancy rate in the Umeda area rose from 0.98% to 1.83%, and in the Yodoyabashi/Honmachi area from 1.01% to 2.47%. Nevertheless, Osaka's office vacancy rate is currently at its lowest level since 1992.
- Top rents at major buildings in the Umeda area are over 35,000 yen per tsubo, due to excess demand that continued before the spread of the corona outbreak.
- However, asking rents in the Osaka Business District in July were down ¥38 per tsubo to ¥11,988 per tsubo month over month; April saw the first drop since December 2016 (down ¥10 per tsubo from the previous month), and July was the second month of rent decline since then. While rents continue to rise in the Umeda, Yodoyabashi and Honmachi areas, rents in the Shinsaibashi and Namba areas are now declining after peaking in March.

Chart 1: Vacancy Rate in Osaka Business District



Source: Miki Shoji, Daiwa Real Estate Appraisal

Chart 2: Rents in Osaka Business District

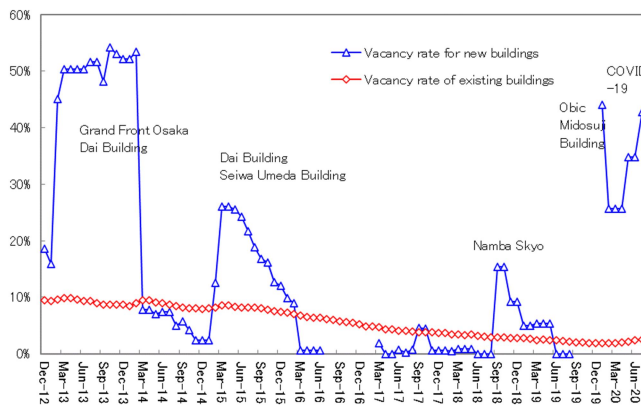


Source: Miki Shoji, Daiwa Real Estate Appraisal

2. Office Supply and Demand

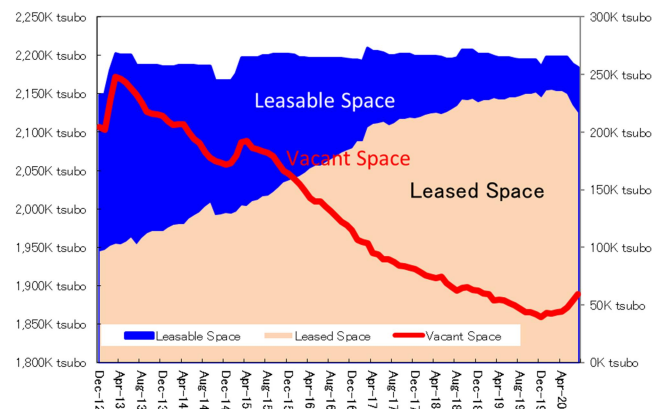
- In Osaka, the vacancy rate for existing buildings is 2.6%, but the vacancy rate for new buildings has risen to 42.8% from 0% in the second half of 2019. Meanwhile, in the 5 wards of central Tokyo, the vacancy rate for new buildings is 2.1%, which is even lower than the 2.8% vacancy rate for existing buildings.
- Since the first half of 2013, the leasable area in the Osaka Business District has remained flat at approximately 2.2 million tsubo, but the leased area has continued to increase. The spread of the new coronavirus has led to a decline in leased space for five consecutive months since March 2020: The total increase in vacant floor space in June and July was over 10,000 tsubo.
- In fact, vacant space in Tokyo is increasing more rapidly than in Osaka, but in Tokyo this is due to an increase in supply. In Osaka, on the other hand, this is simply due to lower demand. Osaka's leasable space was essentially unchanged compared to the end of the year, apart from the completion of the Obic Midosuji Building in January 2020, which was subsequently halted for lease.

Chart 3: Vacancy Rate for New Buildings in Osaka Business District



Source: Miki Shoji, Daiwa Real Estate Appraisal

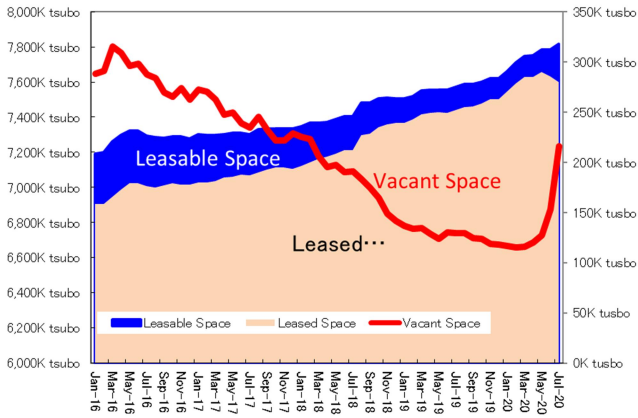
Chart 4: Osaka Business District Office Space



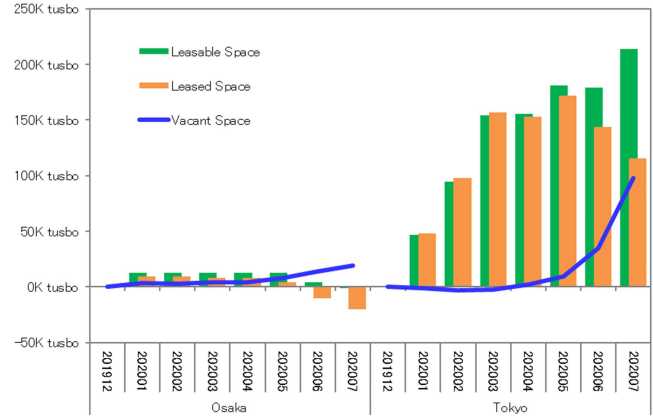
Source: Miki Shoji, Daiwa Real Estate Appraisal

Chart 5: Tokyo Business District Office Space

Chart 6: Change in Vacant Space in Osaka and Tokyo



Source: Miki Shoji, Daiwa Real Estate Appraisal

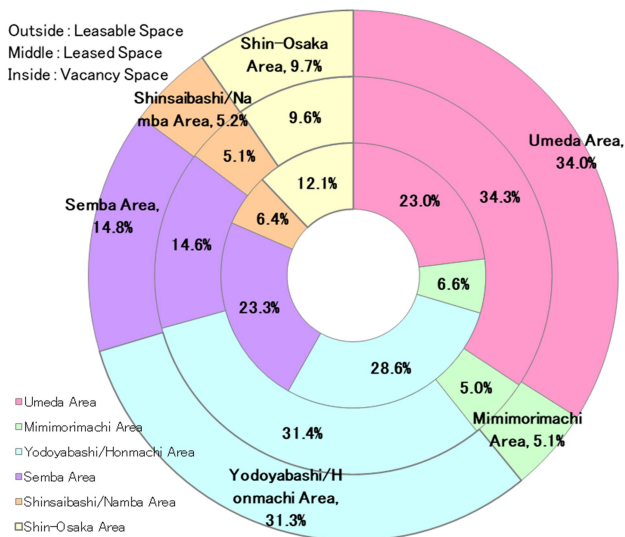


Source: Miki Shoji, Daiwa Real Estate Appraisal

3. Office Space by District

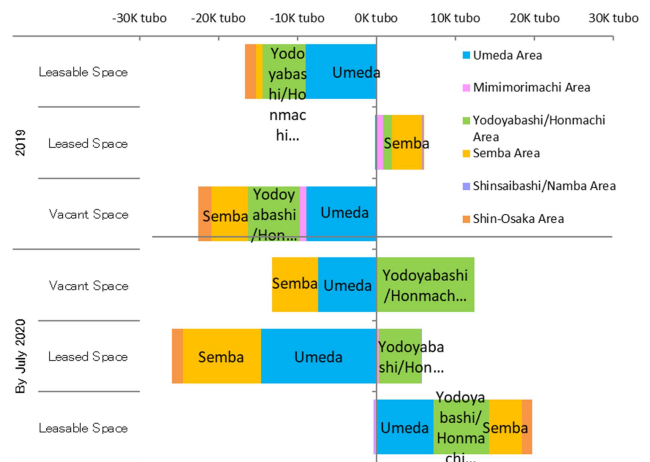
- New supply was also sluggish in the Umeda and Yodoyabashi/Hommachi districts, which account for 34% and 31% of the Osaka Business District's office area, respectively. In addition, many properties were demolished or closed for lease due to reconstruction into complexes, and thus the leasable area has come to a standstill.
- In the Osaka Business District, vacant area decreased by 23,000 tsubo in all six districts in 2019. However, this was due to a decrease of 17,000 tsubo in leasable area.
- By the end of July 2020 the leased area was down by 20,000 tsubo YoY, mainly in the Umeda and Semba districts, and another 1,000 tsubo of leasable area was up. As a result, vacant space at the end of July was up by 19,000 tsubo YoY. Vacant space increased in four major areas (Umeda, Yodoyabashi-Honmachi, Semba, and Shin-Osaka).

Chart 7: Osaka Office Area Ratio (as of July 2020)



Source: Miki Shoji, Daiwa Real Estate Appraisal

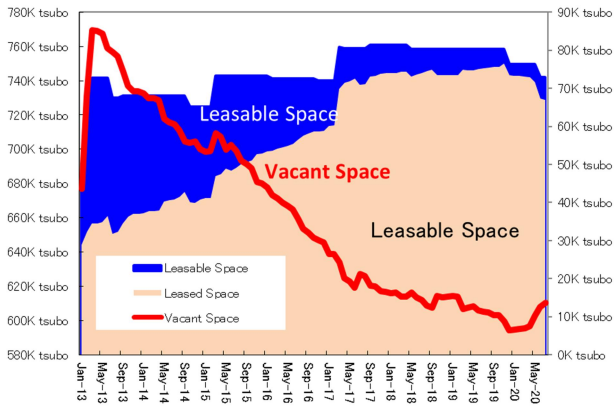
Chart 8: Changes in Osaka Office Space (vs. End of Previous Year)



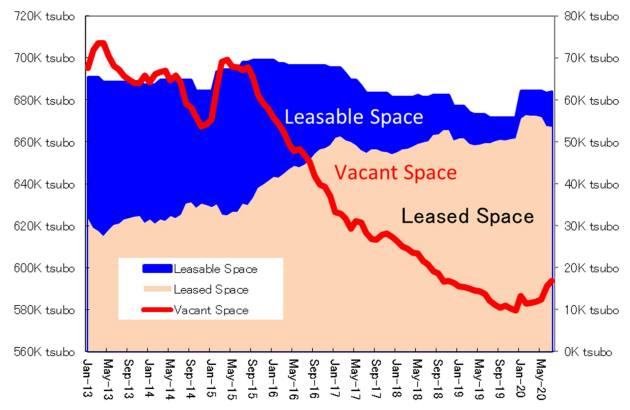
Source: Miki Shoji, Daiwa Real Estate Appraisal

Chart 9: Office Space in Umeda Area

Chart 10: Office Space in Yodoyabashi-Honmachi Area



Source: Miki Shoji, Daiwa Real Estate Appraisal



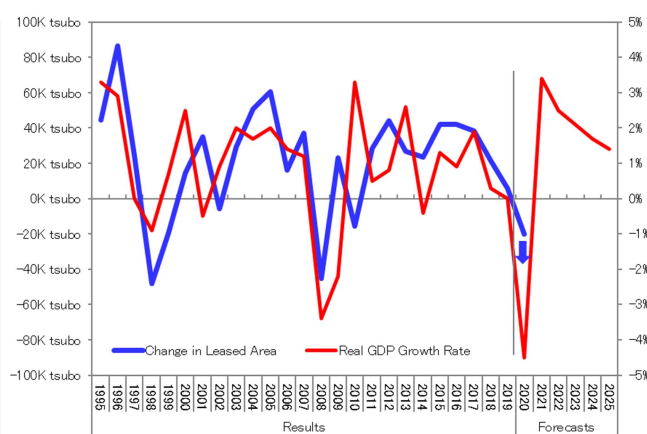
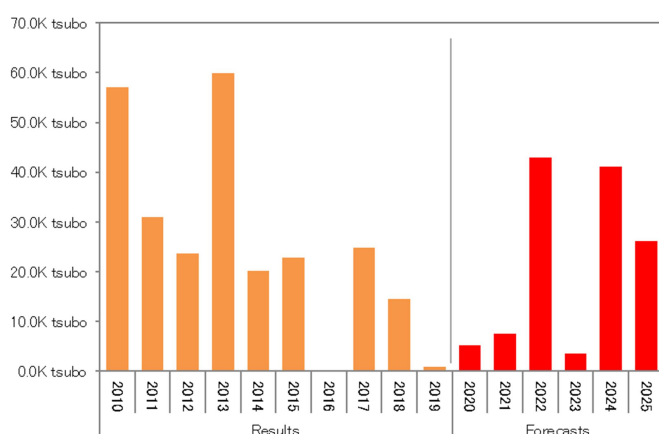
Source: Miki Shoji, Daiwa Real Estate Appraisal

4. Office Supply and Demand in the Future

- At the moment, vacancy rates have begun to rise, but the general sentiment among market players in Osaka is not necessarily bearish.
- In both 1998 and 2008, when the economy was in recession, there was a significant decline in leased space by 45,000 to 48,000 tsubo. Therefore, it is likely that in 2020, leased space could decline by 40,000 to 60,000 tsubo, given the significant deterioration in economic growth this year (already down 20,000 tsubo by July).
- With office supply at a low level in 2021, we can expect vacancy rates to improve later in the year if the decline in demand bottoms out.
- Although large buildings will begin to be supplied in Umeda, Yodoyabashi, and other areas from 2022 onward, demand for office space is expected to recover due to the stimulation of new supply. While the new supply may cause a temporary increase in the vacancy rate, over the medium term, it is expected to improve the business functions and vibrancy of central Osaka and contribute to further growth and increased attractiveness of the city.

Chart 11: Osaka Office Supply Forecast

Chart 12: Economic Growth Rate and Change in Rental Area in Osaka



Source: Sanko Estate, Daiwa Real Estate Appraisal

Source: Cabinet Office, Miki Shoji, Daiwa Real Estate Appraisal

Chart 13: New Buildings and New Construction in Osaka

COMPLETION DATE	PROPERTY	Address	Gross Floor	Number of Stories
Jan.2020	Obic Midotsuji Building	Hiranocho, Chuo-ku	16,799 tsubo	25
Aug.2021	Honmachi Sankei Building	Honmachi, Chuo-ku	9,020 tsubo	21
Mar.2022	Osaka Umeda Twin Towers South	Umeda, Kita-ku	78,650 tsubo	38
Aug.2022	Nippon Seimei Yodoyabashi Building	Kitahama, Chuo-ku	14,914 tsubo	25
2023	UD Midotsuji Building PJ	Awaji-cho, Chuo-ku	—	—
2024	Shinsaibashi PJ	Minamisemba, Chuo-ku	16,335 tsubo	31
2024	Midotsuji Dai Building	Minami-Kyuhoji, Chuo-ku	—	—
2024	Umeda 3-chome PJ	Umeda, Kita-ku	68,668 tsubo	39
2024	Northwest Building	Umeda, Kita-ku	17,848 tsubo	23
2025	Yodoyabashi Station East Area Urban Renewal PJ	Kitahama, Chuo-ku	22,264 tsubo	28
2025	Yodoyabashi Station West Area Urban Recycling PJ	Kitahama, Chuo-ku	39,870 tsubo	28
2027年	Umekita 2nd Phase South District	Oofuka-cho, Kita-ku	96,800 tsubo	39/3

Source: Miki Shoji, Daiwa Real Estate Appraisal