

Which properties will survive the age of abundant supply?

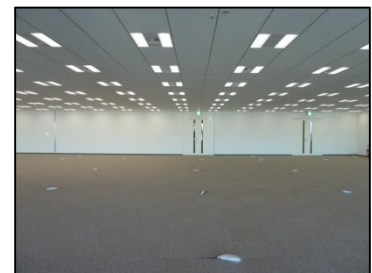
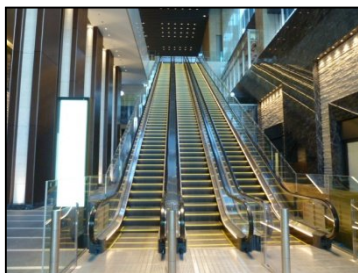
- “*Genius loci*” is the key -

【The inverted-doughnut phenomenon in office building locations】

From the 1980s to the 1990s, the congestion of tenants in the office buildings of the Marunouchi and Otemachi areas led to the rapid expansion of potential office locations towards the less crowded western parts of the city. In the 2000s, large-scale mixed-use developments such as Roppongi Hills and Tokyo Midtown soaked up the spill-over demand from Marunouchi and Otemachi.

However, the sharp increase recently in the supply of new prime-grade office buildings in Marunouchi and Otemachi has rectified the situation. Properties such as the Marunouchi Eiraku Building and the Palace Building (both developed in collaboration with Mitsubishi Estate Co., Ltd. and completed in January 2012) have set a new “Marunouchi Standard” with superb specifications and material textures that take into consideration the area’s historical context as a financial district.

Marunouchi Eiraku Building (completed January 2012)



Palace Building (completed January 2012)



In the near future, we expect to see a segregation of the market: companies that give importance to location will flock to Marunouchi and Otemachi, while those that prioritize cost savings will move to Shinagawa and Osaki. Demand will decline for areas like Roppongi or Ebisu that have ambiguous positioning, resulting in an “inverted-doughnut phenomenon” for office locations.

【Which properties will survive the competition?】

Let us examine which properties will survive the competition for tenants in the age of abundant supply that began in 2012 in the prime central areas of Tokyo.

In terms of building specifications, there has actually not been much progress over the last 10 years. What can be done has already been done, and all the new large-scale buildings are practically equal in terms of physical features. Accordingly, the competition this time will not be one decided by building quality.

Also, faced with declining consumption and a plethora of choices, consumers have become more discriminating and are increasingly oriented to buy things that reflect their personal sense & taste. As more people have come to regard the act of shopping in different locales as an enjoyable activity in itself, large-scale mixed-use complexes that peddle the mere convenience of shops and restaurants at one’s place of work no longer have their former appeal.

So, in this age where the battle for tenants cannot be won based on building function or large-scale developments, which properties will survive? The answer comes down to “location” and “accessibility”.

The key to location is *genius loci*.

When choosing a location to relocate one’s offices, the choice will be determined not just from the viewpoint of costs, but also by the necessity of and benefits derived from being in a particular district. In these times of declining demand, this factor has become even more pronounced.

Accordingly, locations that have well-established town identities (e.g., financial districts like Marunouchi & Otemachi, or fashion enclaves like Minami Aoyama) - where companies of the same or related industries concentrate, where clients congregate, and thus offer the advantage of proximity and status - will have the clear upper hand in the fight to secure tenants.

There is a Latin word “*genius loci*” (inherent ambiance possessed by a land based on its historical and cultural background), translated into Japanese as “spirit of the land” by Hiroyuki Suzuki (formerly professor at The University of Tokyo and currently professor at Aoyama Gakuin University). In the midst of weak demand, locations that have established clear town identities due to their *genius loci* will be more highly regarded as suitable locations for offices.

Nowadays, as the architect's ego takes center stage, the streets are being littered with unsettling structures that are incongruous with their surroundings. We find that buildings which respect the *genius loci* of their site and are one with their context give their users a sense of comfort and reassurance. Properties such as the Marunouchi Eiraku Building, which considers its *genius loci*, will be rated highly.

Accessibility = Station Building

By "accessibility", we do not mean "x minutes walk from a station" or the "possibility of using several train lines". We refer more specifically to "station buildings" - buildings that are directly connected to a station. The Iino Building, completed in October 2011, is not only situated in the convenient Uchisaiwaicho 2-chome district; it is directly connected to the Kasumigaseki Station, which serves as a hub for 3 subway lines, thus earning it high marks for accessibility from tenants. Many of the buildings that will be completed in 2012 are directly connected to stations. In the age of abundant supply, the properties that will survive will be these station buildings.

【Summary】

- **An "inverted-doughnut" phenomenon will occur for office locations.**
- **The age of properties competing through better building quality & specifications is over.**
- **The appeal of large-scale mixed-use developments is in relative decline.**
- **Districts that have a well-defined town identity have an advantage.**
- **Buildings that have designs which respect their location's *genius loci* will be highly regarded.**
- **Station buildings will be the focus of attention.**

The sorting out of properties in the midst of increasing vacancy rates and declining rent will accelerate the trend of rebuilding office buildings that have lost their value as a marketable commodity, hopefully leading to a renewal of the urban fabric.

This is also a golden opportunity for investors with funding ability to cheaply acquire buildings suffering from low occupancy rates. Investors aiming for fire sales may soon begin to seriously acquire property; and it is expected that real estate transactions, which have been sluggish, will start to become active behind the scenes.

【Addendum】

Genius loci should also be a major element in the reconstructions plans for the tsunami-devastated areas of Tohoku. In rebuilding the new streets of these towns, that aspect of *genius loci* which views natural objects, locations and the universe itself as having a spirit is necessary. By respecting *genius loci*, the Sanriku region can hopefully avoid ending up as merely bad copies of Tokyo.

-Yasuhiro Takeuchi