

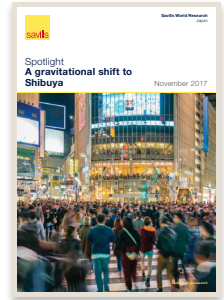
savills

Spotlight A gravitational shift to Shibuya

November 2017



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“Shibuya is undergoing transformational development that may change the power dynamics in the C5W. A substantial increase in office and retail space, as well as infrastructure improvements, will bring more people, capital, and vibrancy to Shibuya.”

Preface

Tokyo’s real estate market continues its upward cycle at a gradual pace. A combination of slow but gradual rental growth and a large inflow of capital is pushing up asset prices and limiting affordable investment opportunities. Given robust pre-leasing activity in newly developed buildings, gradual growth is likely to continue, at least toward the end of 2018. Tokyo is expecting a large upcoming office supply toward the Tokyo Olympics in 2020, though impact is expected to vary by submarket. Under the

current strong investment climate, it is essential to take local macroeconomic variables into account and consider a long-term investment horizon. Considering these factors, Shibuya’s significant redevelopment projects and favourable fundamentals are likely to make it an attractive investment target.

Shibuya transformation

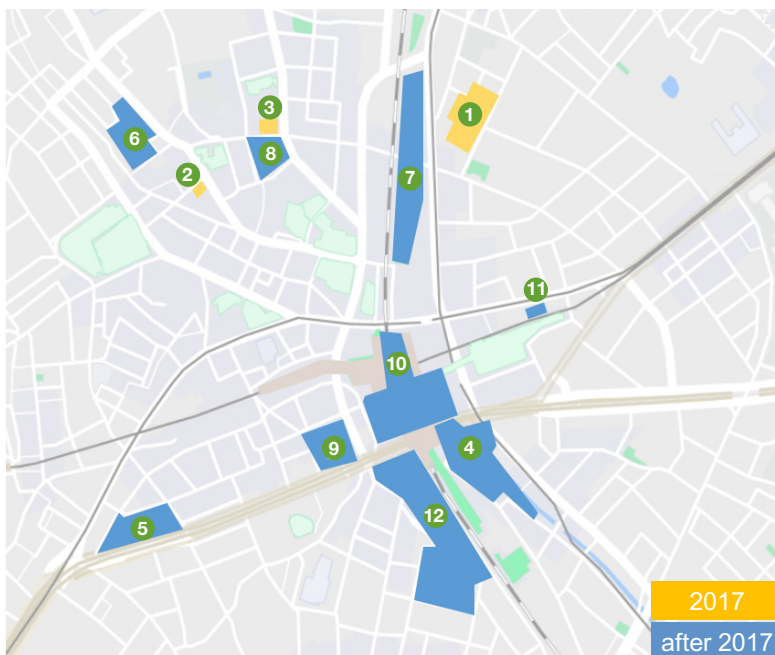
Shibuya is currently undergoing a transformative redevelopment phase, rivalling Roppongi Hills in terms of floor area. New projects expected to complete between 2017 and 2023

SUMMARY

- Shibuya is going through a large redevelopment phase which could boost the area’s presence and competitiveness.
- Total office and retail stock will expand by over 800,000 sq m through 2023, adding space larger than Roppongi Hills, and potentially generating significant footfall.
- Shibuya has been a hub for rapidly growing and high-flying startups and technology companies. The area enjoys a desirable tenant profile.
- The retail customer base is likely to widen to include more young professionals with stronger spending power.
- Demographic trends are favourable, showing improving income levels in Shibuya and increasing young populations in neighbouring wards.

MAP 1

Shibuya development projects, 2017–2023



	Projects	GFA (sq m)	Completion
1	Shibuya Cast	35,000	2017
2	Hulic &New Shibuya	2,000	2017
3	Shibuya Koen-dori Project	5,000	2017
4	Shibuya Stream	117,000	2018
5	Nampeidai Project	47,000	2019
6	Udagawa-cho Project	38,000	2019
7	Miyashita Park	TBD	2019
8	Parco Part 1 & 3	65,000	2019
9	Dogenzaka 1-chome Station Front	59,000	2019
10	Shibuya Scramble Square	181,000	2019
11	Miyamasuzaka Building	15,000	2020
12	Shibuya Sakuragaoka-guchi District	253,000	2023

Source: Press releases, Savills Research & Consultancy

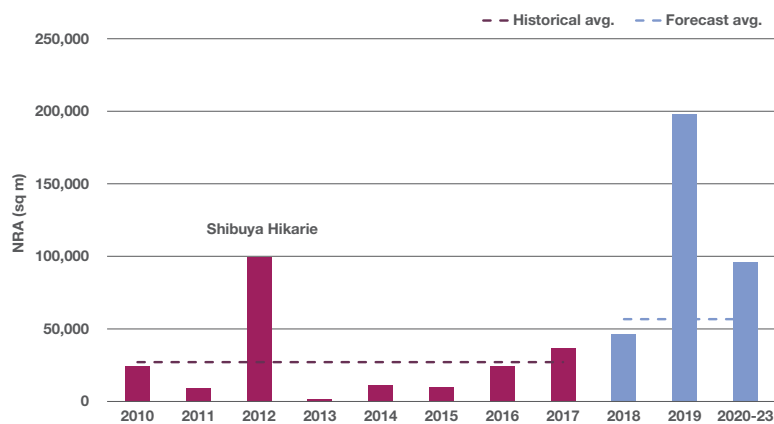
total over 800,000 sq m of GFA. Tokyu Corporation is spearheading projects close to Shibuya Station, and their positive impact should spread throughout the market. Further redevelopment along Inokashira-dori and Koen-dori, including old Parco sites, will revitalise the north-western area of the ward. The recent development of retail neighbourhoods along Meiji-dori should also improve connectivity of Harajuku and Shibuya and could significantly increase footfall between the two areas (see our November 2017 Retail Spotlight).

Redevelopment additionally includes infrastructure improvement which will enhance connectivity and walkability, especially within and around Shibuya Station. New passages, decks, and open squares will be introduced both above and below ground and significantly improve access between buildings and stations, which used to be an issue.

Rapid office rental increases have preceded the wave of new developments. Average Grade A rents in Shibuya have grown by 51% between Q1/2012 and Q3/2017 (Map 2). Overtaking Shinjuku, Chuo, and Minato, Shibuya has become the second most expensive ward in Tokyo and has quickly narrowed the rental gap between it and Chiyoda.

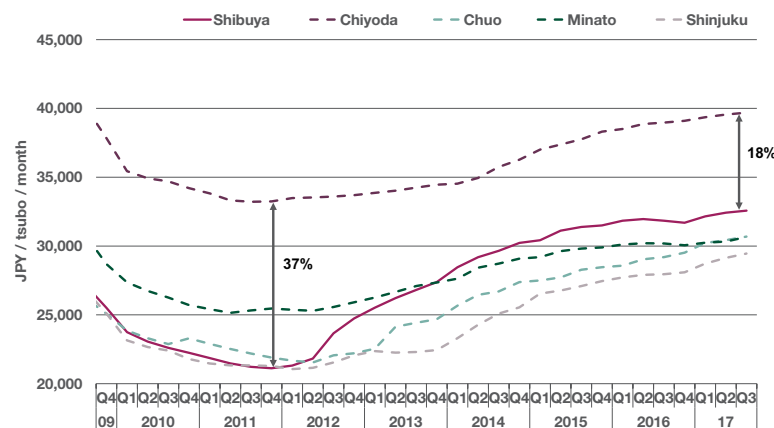
Shibuya Hikarie opened in 2012, just as the ward was beginning its

GRAPH 1 Office supply in Shibuya, 2010–2023



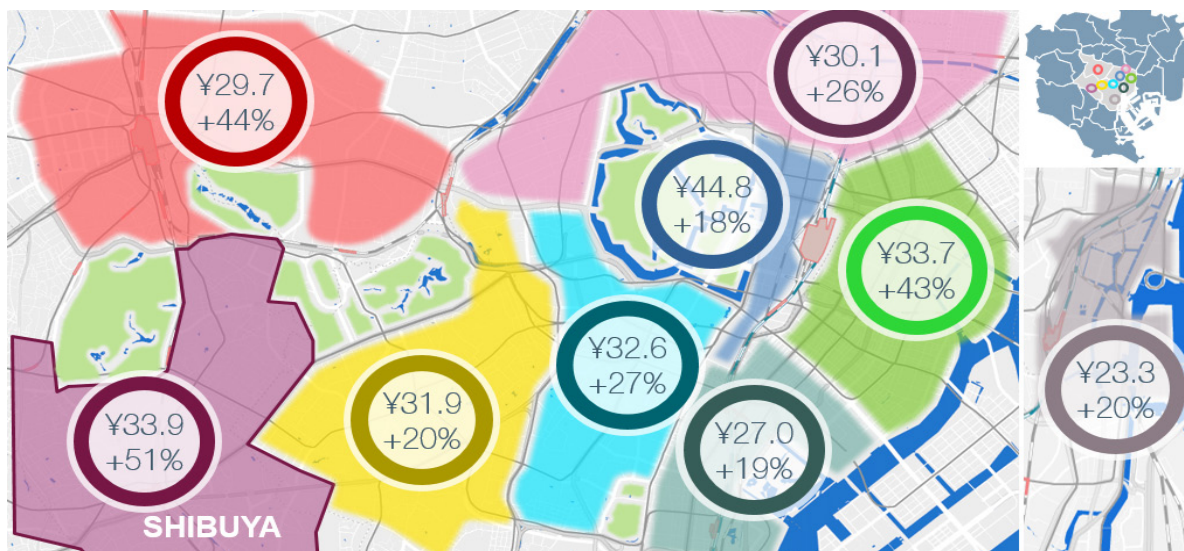
Source: Sanko Estate, Bureau of Environment, Savills Research & Consultancy

GRAPH 2 Grade A office rents by ward, Q4/2009–Q3/2017



Source: Savills Research & Consultancy

MAP 2 Grade A rents by submarket, Q3/2017 vs Q1/2012



Grade A buildings, average passing rent + CAM per tsubo in thousand JPY. Coloured areas for illustrative purposes only. Source: Savills Research & Consultancy

→ rental climb. Hikarie is one of the largest office buildings in Shibuya, with about 38,000 sq m in NRA and currently achieves the market's top rents. Shibuya has a shortage of such large offices, and an influx of new large-scale, high-spec buildings should boost the area's competitiveness as an office market. By 2020, the stock of large offices that Savills monitors in our survey is expected to increase by 35%.

Shibuya's tenant profile

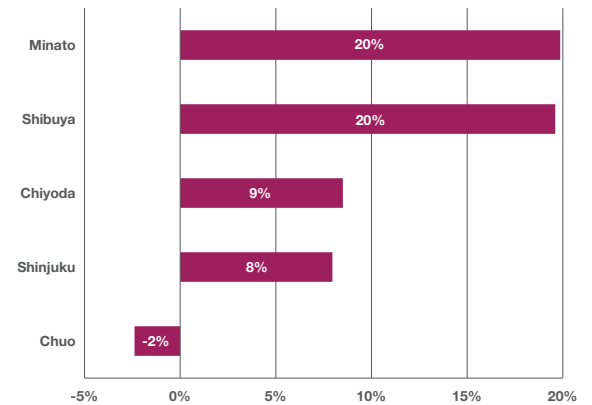
One of the forces driving changes in Shibuya's office market is the technology companies concentrating in the area.

The first wave of IT companies arrived in Shibuya in the mid to late 1990s. The ward was called "Bit Valley", a

pun on the translation of Shibuya – literally "bitter valley" – and the IT term "bit". Shibuya's vibrant and innovative culture was bolstered by arriving fashion, music, publishing, and advertising industries and attracted ambitious entrepreneurs. Although the Bit Valley movement lost steam after the global internet bubble burst and competition from other submarkets intensified, Shibuya's entrepreneurial spirit endured and the city has remained popular among startups.

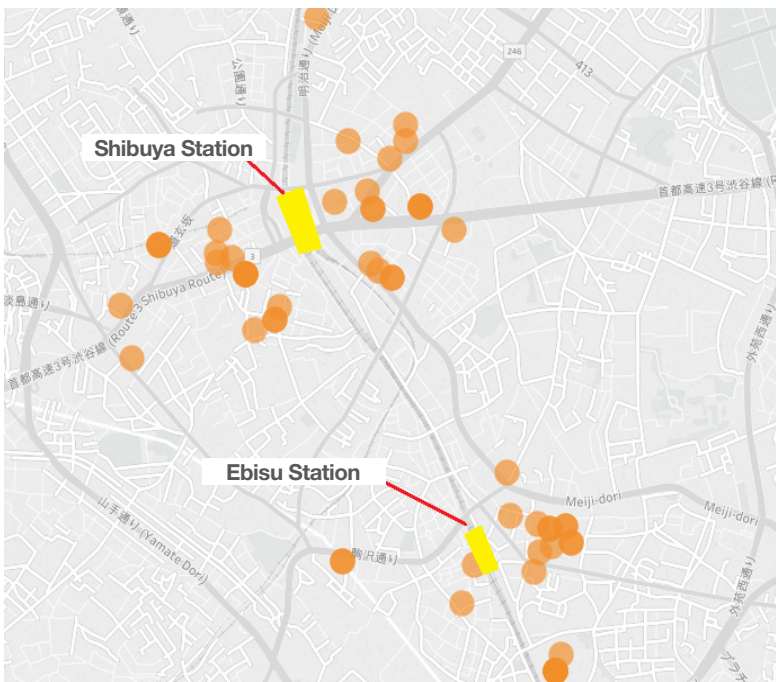
The number of IT workers in Shibuya has grown by about 20% between 2005 and 2015, significantly faster than in the other central five wards except Minato. Companies such as CyberAgent, DeNA, and

GRAPH 3 IT worker growth, 2005–2015



Source: Ministry of Internal Affairs and Communication, Savills Research & Consultancy

MAP 3 Domestically listed IT companies, 2017



Company	Revenue (JPY billion)	Operating profit (JPY billion)	Establishment year
CyberAgent	311	37	1998
JAE	210	12	1953
mixi	207	89	1999
D.A. Consortium	185	7	1996
NOF	174	24	1949
DeNA	144	23	1999
GMO Internet	135	17	1991
Trend Micro	132	34	1989

Source: © OpenStreetMap (www.openstreetmap.org/copyright), Nikkei, Savills Research & Consultancy

GMO Internet have headquarters near Shibuya Station, and group companies are creating clusters in the vicinity (Map 3). Major developers including Mitsubishi Estate and Mitsui Fudosan are creating incubation offices and are actively trying to attract tenants in promising fields such as artificial intelligence, biotechnology, and robotics. Shibuya offers landlords an edge in such recruiting efforts because the ward's environment naturally attracts startups and rapidly growing companies.

Shibuya also attracts talent due to its excellent accessibility. Shibuya Station is serviced by nine train lines and contains multiple universities within a short radius. The steady growth of young populations in neighbouring wards implies that Shibuya has reliable talent pools to support further workforce increases.

For example, most commuters to Shibuya come from Setagaya Ward, which saw the largest net migration of 20 to 29 year-olds between 2014 and 2016 in Tokyo. Shibuya has also seen the highest increase in taxable income among all of Tokyo's 23 wards, likely because Shibuya houses better paid, higher income earners. This in turn probably led to the development of additional upscale residential properties, creating an even more favourable environment for attracting talent.

The factor that is holding back the office market in Shibuya is a shortage of office space. Compared to other

→ central wards, Shibuya's office market is much smaller and its Grade A stock represents only 7% of the C5W. Large, high-spec offices in the pipeline should absorb currently unaccommodated demand and possibly win over tenants previously lost to other submarkets. Rental levels of new projects near Shibuya Station are rumoured to be strong, and pre-leasing activities are also going well.

Shibuya is a hub for startups and will remain one going forward. For instance, according to Tokyu Research Institute, Shibuya has the most coworking locations in the C5W and almost doubled its figure from 37 locations in 2013 to 72 locations in 2017. Many coworking offices host networking events and study sessions for like-minded entrepreneurs and are helping develop Shibuya's grass-roots innovative culture. New projects such as Shibuya Stream and Shibuya Scramble Square will feature incubation offices and networking spaces for creative content workers and should carry on the startup culture of the city.

Transforming retail scene in Shibuya

The developments in Shibuya should have a significant impact on the city's retail scene. Tokyu's station-front project is expected to add over 170,000 sq m¹ of retail space, a third of the total project GFA and almost the entire size of the Shin Marunouchi Building. Additionally, Parco will reopen in a completely new form in 2019. These new landmarks should reposition Shibuya as a cutting-edge retail destination that offers unique experiences and entertainment for both domestic and international visitors.

The redevelopment should also impact the profile of Shibuya's typical retail customer base. Shibuya's main shoppers are historically teenagers and young adults who are attracted to the city's unique street culture. However, the tide has been gradually changing, as represented by the opening of Shibuya Hikarie. For instance, ShinQs, a retail facility in Shibuya Hikarie, houses brands new to Shibuya and mainly targets young professionals from their late 20s to their 40s.

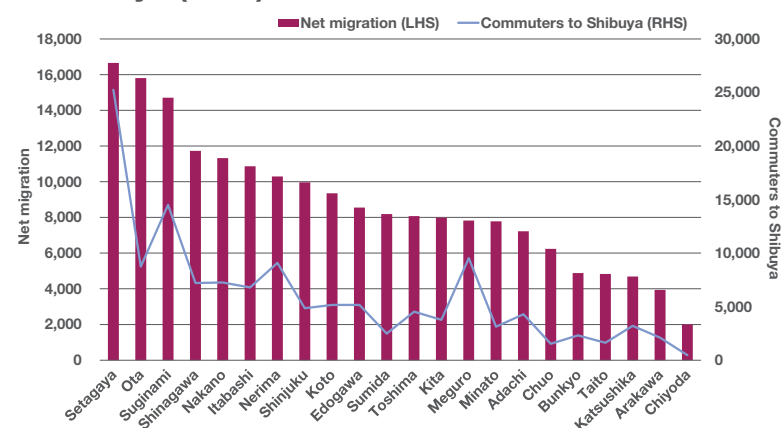
As previously discussed, the office stock in Shibuya will expand by 35%

and should increase the number of workers coming to the city. This will make the city's demographics and retail clientele more mature. The change should diversify the retail customer base in Shibuya, and the city should benefit from increases in consumers with more spending power.

Inbound tourism may be another tailwind for Shibuya's retail market.

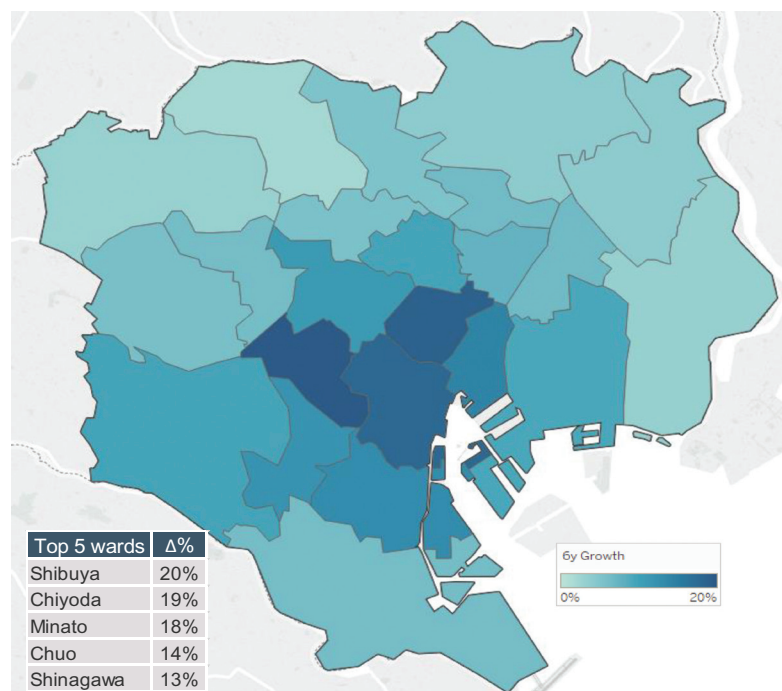
Shibuya has the second highest ratio of overseas visitors to total lodging guests in the C5W, and is especially popular among western tourists, for whom the Japanese government has earmarked a budget to attract for diversification. According to the Japan Tourism Agency, Shibuya's budget and city hotels were nearly 90% occupied in 1H/2017, and 48% of total guests were overseas tourists. ■

GRAPH 4 20-29 y.o. net migration (2014-2016) vs commuters to Shibuya (2015)



Source: Ministry of Internal Affairs and Communication, Tokyo Metropolitan Government, Savills Research & Consultancy

MAP 4 Taxable income growth, FY2010-FY2016



Source: © OpenStreetMap (www.openstreetmap.org/copyright), Ministry of Internal Affairs and Communication, Savills Research & Consultancy

¹ The figure is estimated based on press releases and plans submitted to the Bureau of Environment of the Tokyo Metropolitan Government.

OUTLOOK

The prospects for the market

Shibuya has developed as an epicentre of vibrant culture, and the district is famous for birthing many fashion and entertainment trends. It is now going through a huge redevelopment phase that will change the characteristics of its office market. New retail landscapes are also transforming the area to a more mature market with significantly larger footfall.

Shibuya's technology industry is a driving force for its robust office fundamentals. The series of developments around Shibuya

Station will significantly increase office supply, but high demand should result in almost immediate absorption. Pre-leasing activity for new office space is robust, which indicates strong pent-up demand in the area. Promising startups will support the growth of the ward as they continue to drive future office demand.

Furthermore, increasing young populations in neighbouring wards indicate that Shibuya has a reliable talent pool on which to draw. Improving income levels in Shibuya reflect strengthening market

conditions and are favourable for future growth.

Overall, Shibuya is well-positioned to boost its status. Redevelopment projects around Shibuya Station are expected to have a wide and continuous impact on the Tokyo real estate market.

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