

Ikebukuro



Post-COVID potential for a diamond in the rough

Summary

- Located in Tokyo's Toshima Ward, Ikebukuro Station is the second busiest railway hub in the world, hosting eight train lines and recording around 2.7 million passengers each day.
- Toshima Ward is rebuffing expectations of population decline and Ikebukuro is redefining its image as both a business and residential hub.
- Retail activity in the submarket has been largely concentrated amongst department stores integrated within the station and owned by railway operators. However, new, mixed-use developments and entertainment complexes are drawing large footfalls outside of the station.
- Ikebukuro is home to a number of institutions of higher education and a new international campus is in the pipeline. Notwithstanding the immediate impacts of COVID-19, demand for compact housing and student accommodation should increase over the mid-to-long term.
- New offices in the area offer a 40% discount over comparable properties in Shibuya. Given its affordability and robust railway access, Ikebukuro should become a popular target for satellite offices in the "new normal".

INTRODUCTION

Along with Shinjuku and Shibuya, the Toshima Ward is known as one of the "Fukutoshin" (subcentres) of the Tokyo 23 wards (23W). The ward is home to Ikebukuro Station, which hosts eight train lines and on average sees roughly 2.7 million passengers board or disembark every day, making it the second busiest station in the world – surpassed only by Shinjuku (Graph 1). The area serves as a hub for those coming to central Tokyo from Saitama and Northwestern Tokyo, and provides strong access to Shinjuku, Shibuya, and Yokohama via the Fukutoshin Line and Shonan Shinjuku Line. While Toshima may not be as eminent as its Fukutoshin compatriots, Ikebukuro is undergoing large-scale development that is improving the area's character.

To be sure, Ikebukuro is not as prominent as Yokohama and Shinagawa, the other two submarkets surveyed in our "Tokyo Periphery" report series. In 2014, a report published by the Japan Policy Council labelled Toshima as the only ward of the 23W with the potential to "vanish", based on a projected decline in the 20-39 year old female population. While some have disputed the accuracy of the assertion, the ward's administration has taken this report seriously. As a result, they have been actively introducing measures to avoid Toshima's projected fate by making the ward more attractive to families. In addition, the national government designated the area around Ikebukuro Station as a National Strategic Special Zone¹ and a Special Urgent

¹ The "National Strategic Special Zones" are designated by the national government to boost the international competitiveness of industry and to promote the creation of centres of international economic activities by giving priority to advancing structural reform of the economic system.

Urban Renewal District² in 2015.

A potential shift to satellite offices could make Ikebukuro a winner going forward, with around 1 million commuters passing through the station each day from Saitama Prefecture alone. At present, the area offers a relatively limited amount of office space and what little space there is tends to be in older, lower-grade offices. Encouragingly, the few office projects that have come online recently have been fully filled out – a sign of latent demand for offices in the area. Upcoming mixed-use developments and the area's affordability, with the newest offices still offering a significant discount to many older offices in central Tokyo, should draw more corporate tenants to the submarket.

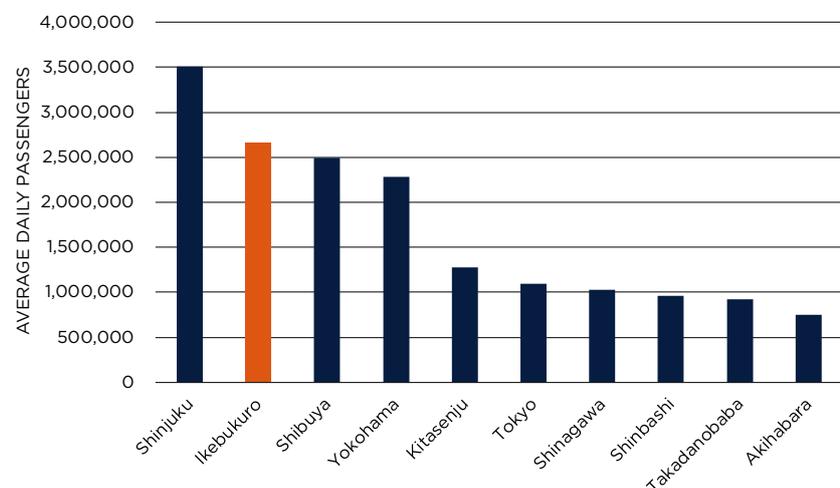
A LONG-AWAITED MAKEOVER

A lack of suitable parks and green spaces was among the top issues identified regarding Toshima's ability to attract families. As such, the recent redevelopment of local parks should serve to improve the area's image and draw residents. For instance, after being closed down for six years, Minami-Ikebukuro Park was renewed in 2016 and has since become a popular rest and relaxation spot for local families, equipped with an open-style café (Map 1, (E)), (cover image).

Revitalisation of Ikebukuro West Gate Park, a location that – via a TV drama bearing the same name – gained some notoriety as a hub for "yankee" (delinquent youth), was

² The Act on Special Measures Concerning Urban Reconstruction established a zoning category called "Special Urban Renaissance Districts" that is highly flexible and free from restrictions of conventional city planning (e.g. use districts) within urgent redevelopment areas.

Graph 1: Top 10 Stations by Average Daily Footfall (Tokyo Metropolitan Area), FY2018



Source Ministry of Land, Infrastructure, Transport and Tourism (MLIT), Savills Research & Consultancy
Note: The data above refers to passengers that have boarded or disembarked from the respective station. As such, through traffic is not included.

completed in the fall of last year as a part of the extensive West Gate Redevelopment Project (Map 1, (5)). As a further boon to the area’s image, Toshima was also selected as Japan’s “2019 Culture City of East Asia”, a distinction that has also been held by cultural centres such as Kyoto and Kanazawa.

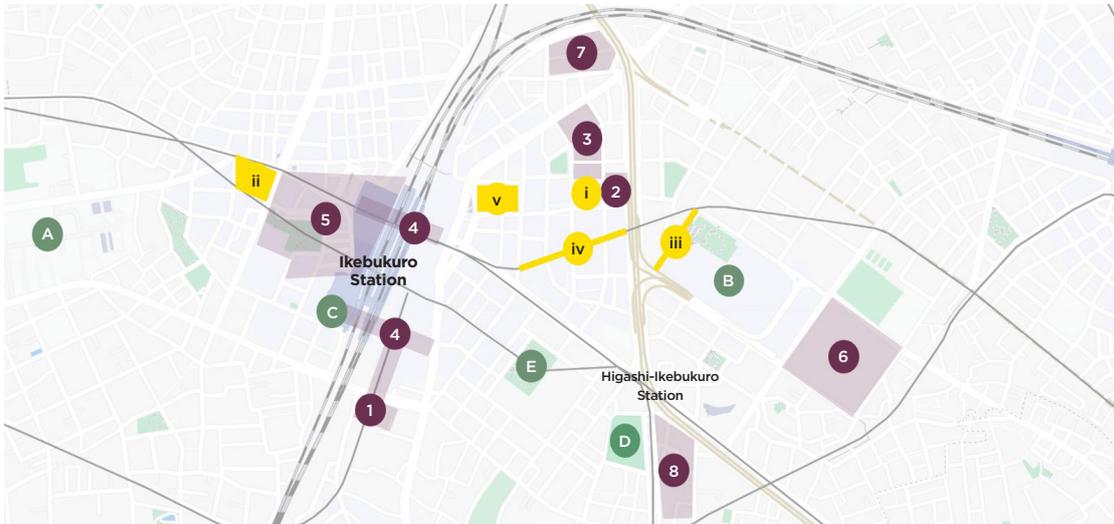
Ikebukuro is also seeing a long-awaited boom in office development and has been attracting more attention as a business hub. In January 2019, WeWork opened its first Tokyo location outside of Tokyo’s central five wards (C5W) in the Metropolitan Plaza Building (Map 1, (C)), which was subsequently followed by a location encompassing 2,400 tsubo across five floors at Hareza Tower (Map 1, (3)). Daiya Gate Ikebukuro, completed in March 2019, offers 15 office floors with around 640 tsubo of leasable area per floor (Map 1, (E)). Regus, meanwhile, opened its second Ikebukuro location on the 5th floor of the building in April 2019.

Ikebukuro is a late bloomer in the current cycle, undergoing large-scale redevelopment for the first time in 40 years. This may be well-timed as, with nearly 3 million commuters passing through the station on a daily basis, the surrounding area could be a prime location for satellite offices.

The redevelopment of the former site of the city municipal office, now called the Hareza project, was completed in May 2020 with a 20,000 tsubo retail and office tower, as well as separate theatre and public halls, while a new set of bridges, named the “East-West Deck”, will connect the eastern and

western sides of the station, improving the area’s overall connectivity (Map 1, (4)). Looking further ahead, the Higashi-Ikebukuro 1-Chome Project, consisting of a mixed-use 180 metre tower that has a total GFA of 44,000 tsubo, is scheduled to open its doors in 2024.

MAP 1: Ikebukuro Station Area



NEW DEVELOPMENTS		TYPE	COMP.	LANDMARKS		EST.	RETAIL HOTSPOTS	
1	Daiya Gate Ikebukuro	Office	2019	A	Rikkyo University	1874	i	Animate
2	Q Plaza	Retail	2019	B	Sunshine City	1978	ii	Marui
3	Hareza Project	Mixed-use	2020	C	Metropolitan Plaza Building	1994	iii	Otome Road
4	East-West Deck	Infrastructure	TBD	D	Brillia Tower Ikebukuro	2015	iv	Sunshine 60 Street
5	Ikebukuro West Gate Project	Mixed-use	Ongoing	E	Minami Ikebukuro Park	2016	v	Yamada Denki
6	TIU International Campus	Education	2023					
7	Higashi-Ikebukuro 1-Chome	Mixed-use	2024					
8	Minami-Ikebukuro 2-Chome	Residential	2025					

Source Savills Research & Consultancy

RETAIL

As Tokyo's number two transit hub, Ikebukuro Station sees a vast amount of footfall. However, much of the area's retail activity has been absorbed by large department store chains owned by major rail companies, including Seibu, Tobu, and Lumine (JR), all of which are directly attached to the station. The Seibu location, for instance, is the chain's flagship store, recording sales of JPY180 billion in 2019 – the third highest of all department stores in Japan. As a result, there is comparatively low spillover to the surrounding area and most retail activity has been concentrated in the zone between Ikebukuro Station and Sunshine City (Map 1, (B)). New developments and cultural trends may be shifting this balance, however. The east side of Ikebukuro Station offers a diverse array of retail facilities,

though its primary draw has been fashion stores along Sunshine 60 Street (Map 1 (iv)) and Meiji Street, which fronts Ikebukuro Station. That said, openings amongst apparel companies have been few as of late, with new developments increasingly focused on entertainment, arts, and culture. 2019 saw the addition of Q Plaza in July, a retail facility that includes the first movie theatre in East Japan offering IMAX® with Laser (Map 1, (2)). The first through seventh floors of Hareza Tower offer additional retail facilities including a Toho Cinemas location that offers 10 screens and 1,700 seats, whilst the other buildings in the development include a theatre and civic hall. Ikebukuro is also developing a niche in anime and gaming subculture, gaining ground on Akihabara (Chiyoda), Japan's top geek haven. LFS Ikebukuro, the largest

E-sports centre in the 23W, was opened in April 2018, adding to the area's status as a hub for gamers. This has been further complemented by the opening of Namco Ikebukuro (a chain of arcades) in late 2019. The area notably contains the flagship store of Animate, the largest retailer of anime, video games, and comics in Japan (Map 1, (i)). In contrast to the male-oriented image of Akihabara, Ikebukuro is distinguishing itself as a haven for female anime fans specifically. This subculture is centered around Otome Road, which literally translates as "Maiden's Road", a street in front of Sunshine City that hosts branches of major comic stores including K-books, Lashinbang, and Mandarake, all of which cater more strongly to a female audience (Map 1, (iii)).

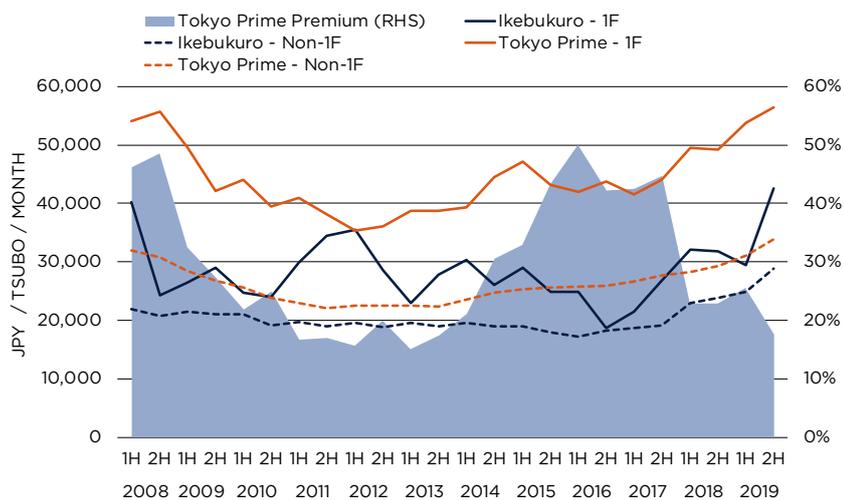
With an emphasis on entertainment and supported by these niche segments, footfalls are steadily being drawn beyond the station, supporting robust rental growth in the market (Graph 2). The southern portion of the East-West deck is also scheduled for completion this year, which will support traffic between the two halves of the submarket. This diffusion in activity should create more opportunities for investors, who have generally had little room to buy into the now densely-packed retail cluster. To be sure, high-street retail will likely take a hit in the short run. As in Tokyo's prime retail submarkets, inbound tourists have been an important driver of sales. That said, Ikebukuro caters heavily to a cohort of young local shoppers, which may be a key support through the duration of the pandemic and beyond.

RESIDENTIAL

Despite the Toshima Ward's 2014 designation as the only ward of the 23W with the potential to "vanish", Ikebukuro was ranked as the third most desirable area to live among residents of Greater Tokyo in that same year, according to a survey by Suumo - Japan's largest apartment search platform - coming in behind Kichijoji (Musashino City) and Ebisu (Shibuya). Though dropping somewhat in recent overall rankings, Ikebukuro was still ranked at number three among residents of Tokyo Prefecture in Suumo's 2018 survey. The area's affordability and convenient access make it an attractive location for single workers or college students, with asking rents around 17% lower than the C5W average as of Q2/2020 (Graph 3).

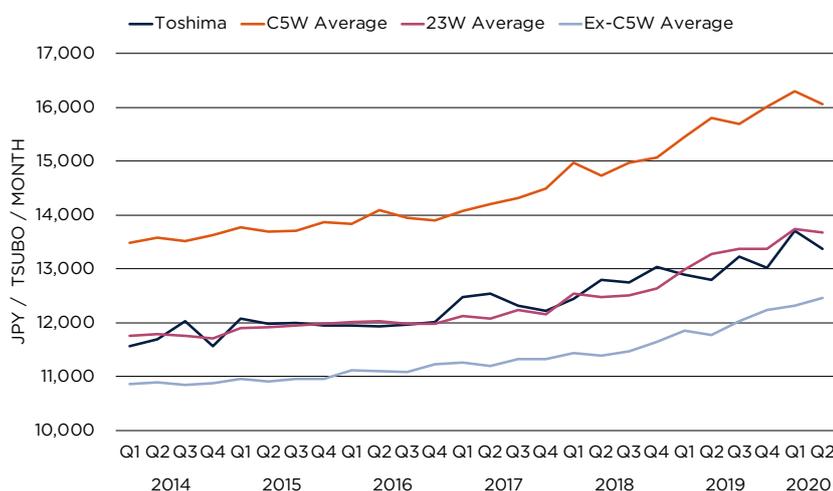
Indeed, more so than a business district, Toshima, along with neighbouring Bunkyo, has been well known as a host to institutions of higher education, including Rikkyo University (Map 1, (A)), Gakushuin University, Taisho University, and the Tokyo College of Music. Adding to these institutions, Tokyo International University is aiming to open a new campus in Ikebukuro in 2023, where it intends to base 3,500

Graph 2: Ikebukuro vs Tokyo Prime* Retail Rents, 2008 to 2019



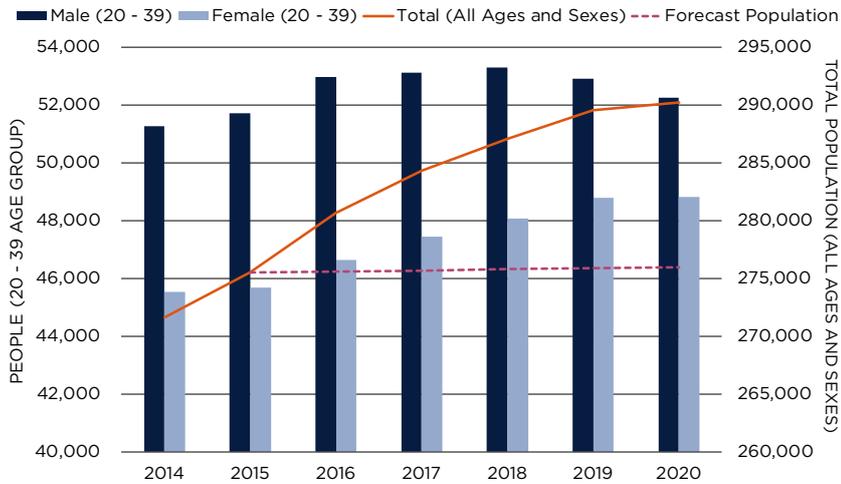
Source Japan Real Estate Institute, Savills Research & Consultancy
*Tokyo Prime refers the average rents of the Ginza, Omotesando, Shinjuku and Shibuya submarkets.

Graph 3: Toshima Ward Residential rents, Q1/2014 to Q2/2020



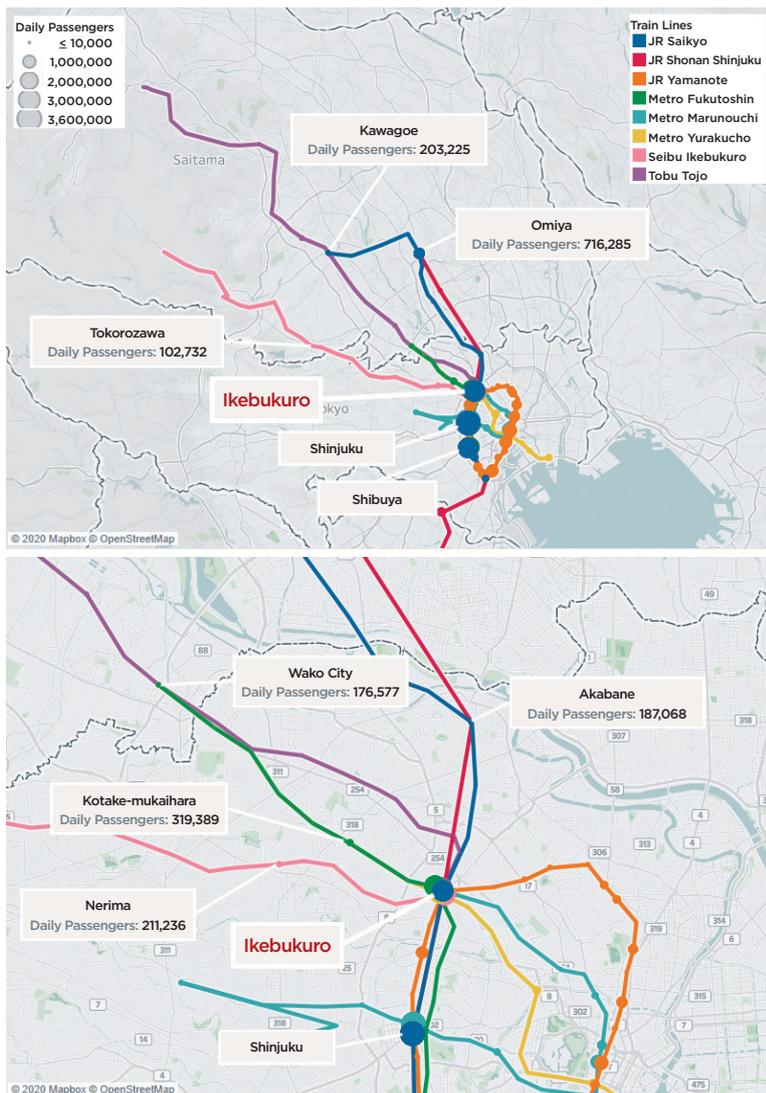
Source Savills Research & Consultancy

Graph 4: Toshima Ward Population Growth*, 2014 to 2020



Source Toshima Municipal Government, Savills Research & Consultancy
 *The population figures are as of 1 January of the respective year.

Map 2: Train Lines with Direct Connection to Ikebukuro



Source MLIT, Savills Research & Consultancy
 Note: Lines represent segments connecting stations on a given railway line and are not fully representative of actual railway routes.

students (Map 1, (6)). Notwithstanding the immediate impacts of COVID-19, demand for compact housing and student accommodation in the ward should increase over the long term as a result of student demand.

While young, single residents may be the core demand driver for Toshima housing, recent redevelopments, including those of green spaces discussed above, should make the area more attractive to families as well. 2015 saw the addition of a first in Japanese real estate: a residential tower combined with a municipal office. The 49F residential tower, dubbed Brillia Tower Ikebukuro, offers 432 condo units, most of which are family sized. Demand during the initial sales period was reportedly robust enough to warrant a lottery system and units sold out within only two months (Map 1 (D)). It has recently been disclosed that, immediately adjacent to Brillia Tower, a consortium led by Sumitomo Realty & Development is planning a massive redevelopment project consisting of two large-scale residential towers offering 1,500 units, which is slated for completion in 2025 (Map 1 (8)).

The local government has also implemented measures to attract families, including a “child-rearing navigator” at the municipal office, which reportedly had 5,300 users during its implementation in FY2015. If such measures continue to be successful, the 2014 prediction of the ward’s disappearance is unlikely to come to fruition. Encouragingly, current estimates reveal that the female population in the 20-39 age group has been on the rise since that initial forecast, whilst the ward’s total population has also grown more than expected over the same period (Graph 4). New residential developments, such as Sumitomo Realty’s large-scale project, should continue to draw more families to the area.

It is also important to note that the government’s population forecasts do not factor in immigration. As of 2020, residents with foreign nationalities account for 10% of Toshima Ward’s population and the number has been growing. Given this, as well as the upcoming residential developments, it would be reasonable, therefore, to conclude that the actual population growth in the ward will outperform forecasts.

OFFICE

Even with the second busiest rail station in the world, Ikebukuro carries a much more prominent image as a retail and entertainment district than as a business district. Indeed, the Ikebukuro office market has seen few significant additions since the completion of Sunshine 60 in 1978, which – with a GFA of 73,000 tsubo and standing at 240 metres – was the tallest building in Japan at the time. Data from MLIT as of 2017 shows that Toshima Ward had the oldest office stock amongst the 23W, averaging 33 years old – 6 years older than the average for the C5W – with 45% of office floor area completed before 1979. Accordingly,

recent and upcoming redevelopment projects, which generally include significant office components, should help Ikebukuro establish itself as a business district.

Daiya Gate Ikebukuro was the first major station-side office project since the completion of the Metropolitan Plaza Building in 1994, and is the first in a series of office developments coming online across the submarket over the next few years. These developments are a much-needed catalyst for Ikebukuro's office market and should carry overall market rents higher. According to Sanko Estate, rents for large-scale offices³ in the Higashi-Ikebukuro / Minami-Ikebukuro submarket stood at JPY24,000 as of June 2020. Hareza Tower is rumoured to have opened its doors fully leased in July at an average one-floor rent of over JPY30,000 per tsubo – a 25% premium on average rents in the surrounding area, but still 40% cheaper than the newest office buildings in Shibuya. The west side of Ikebukuro Station has even more of a discount, with Sanko reporting rents of JPY20,000 per tsubo per month for large-scale offices – mainly due to the age of the buildings in the area. The Ikebukuro West Gate Development project is expected to bring new office space online over the coming years, breathing new life into the submarket.

³ "Large-scale offices" refers to office buildings offering floor plates of 200 tsubo (661 sq m) or greater.

Given its affordability compared to the C5W and its connection to eight train lines, Ikebukuro is a strong target for satellite offices or relocations for tenants looking to cut rental costs. Firms that have a substantial employee base in Saitama and/or Northwest Tokyo should find the area to be especially appealing (Map 2). JR East reports that 750,000 passengers utilise the JR Saikyo Line between Akabane (Kita Ward) and Ikebukuro stations alone on a daily basis.

OUTLOOK

Ikebukuro's redevelopment is occurring much later than other sections of Tokyo in the current cycle. Growing demand for satellite offices should support Ikebukuro as a business hub, while cultural trends and improvement of the area's image should support retail activity and boost residency. Development over the past few decades has favoured the east side of Ikebukuro Station and, though this area remains the primary focus of redevelopment, the west side of the station is undergoing a long-awaited makeover. This, along with improved connectivity with the east side of the station, should reduce the value gap between East and West Ikebukuro and unlock more attractive investments.

To be sure, investment opportunities are still limited around Ikebukuro. The submarket has one of the most compact retail and office clusters

in Tokyo, and pricing tends to be firm near the station. However, with most sellers maintaining pre-COVID pricing levels in prime markets, Ikebukuro could still offer a comparative bargain for those looking to deploy capital. The area should have greater upside potential compared to its counterparts in Tokyo's CBD, given the submarket's relatively late development phase and positioning within the post-COVID work environment.



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