

Japan - June 2020

Q  
**SPOTLIGHT**  
Savills Research

# Shinagawa



# Tokyo's newest gateway has long-term potential

## Summary

- Being located just outside of Tokyo's central five wards (C5W), and with a well-established business district, Shinagawa real estate is likely the safest bet in Greater Tokyo outside of the C5W (the Tokyo Periphery).
- Despite having some of the highest rents amongst Tokyo's 18 outer wards (18W), the Shinagawa Ward continues to attract a large number of residents in their 20s, with the number picking up over the past two years.
- Housing starts data indicates that the market has been undersupplied in terms of multifamily residential units - suggesting that rents could see some additional upside.
- Although office rents have grown substantially over the past few years, the market still offers a nearly 40% discount in Grade A office space over the C5W. That said, pricing varies significantly by neighbourhood.
- Increasing availability in the C5W resulting from COVID-19 could lead to an early rise in vacancy in Shinagawa Ward's peripheral neighbourhoods, such as Tennozu Isle and Shinagawa Seaside, as tenants take advantage of the opportunity to secure more convenient office space in the city centre.
- Looking ahead, Shinagawa Station will host the Tokyo platform of the first Maglev line, which is set to open in 2027 and will reduce railway travel time to Nagoya by 60%. Leading up to this, the station is set to see a major expansion accompanied by new developments in the surrounding area.

## INTRODUCTION

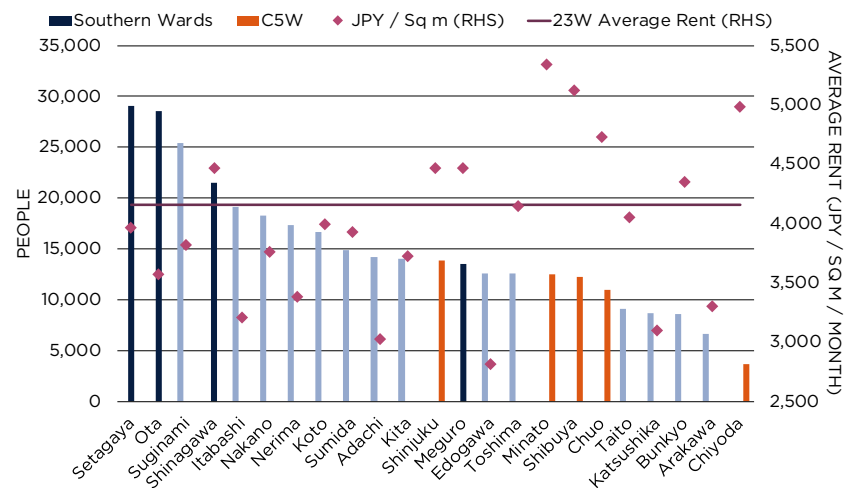
Although Japan has managed to contain the COVID-19 outbreak relatively well thus far, the impacts of the global pandemic will certainly put a damper on Japan's economy and by extension the broader real estate market. As of April 2020, the IMF has forecasted that Japan's economy will contract by 4.8% in 2020. To make matters worse, the Tokyo Olympics - which are now slated for July 2021 - could face an outright cancellation.

Notwithstanding the near-term impacts of COVID-19, Tokyo will continue to see significant investment into the early 2020s

and beyond. Major development projects are already underway around the C5W in areas such as Toranomon and Shibuya. Along with these developments, Shinagawa Station will undergo massive redevelopment that will prime it, as well as the Shinagawa Ward just to the south, for a boom over the course of the decade.

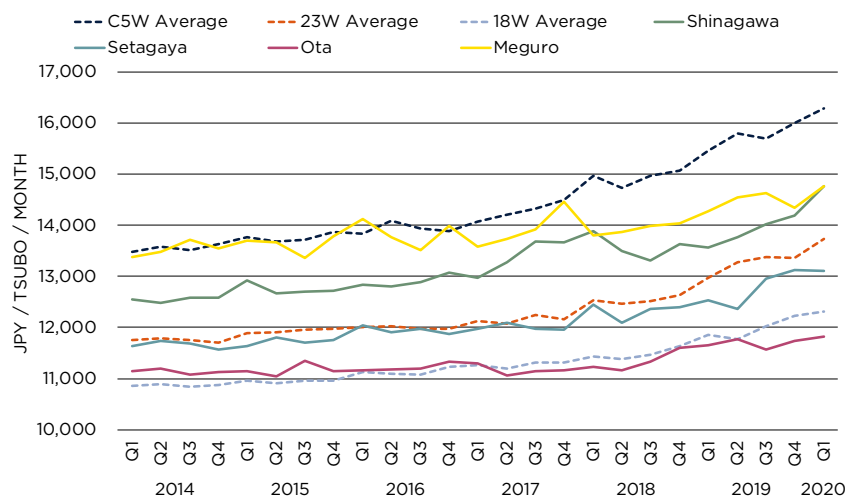
The area was historically the last (or first) lodging stop along the old Tokaido Route between Kyoto, then the seat of the Emperor, and Nihonbashi in Edo (Tokyo). The district retains some of this character as it is still reported to have the highest concentration of hotel accommodations in Tokyo. More recently,

Graph 1: 20-29 Year-Old Net Migration by Ward, 2014 to 2018



Source Ministry of Internal Affairs, Savills Research and Consultancy

Graph 2: Multi-family Rents Amongst the Southern Wards, Q1/2014 to Q1/2020



Source Savills Research and Consultancy

Shinagawa has developed into an industrial district and, subsequently, a business centre and residential hub, with the area's connection to the Shinkansen line and the redevelopment of the national railway's marshalling yard in 2003 being major catalysts for this trend.

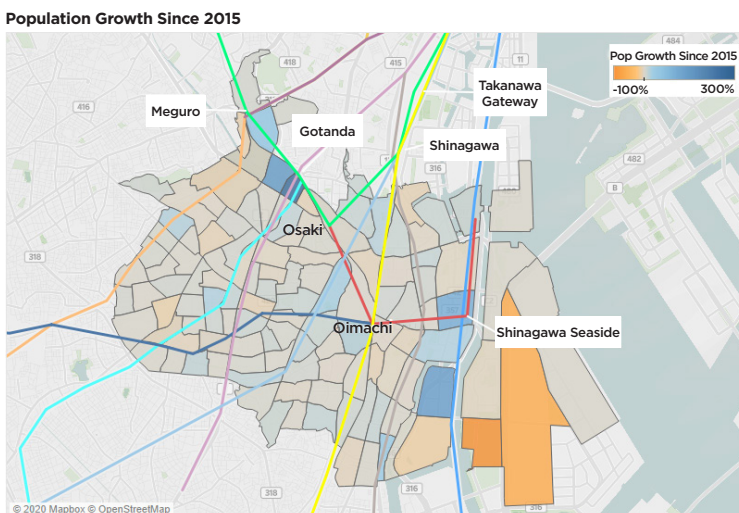
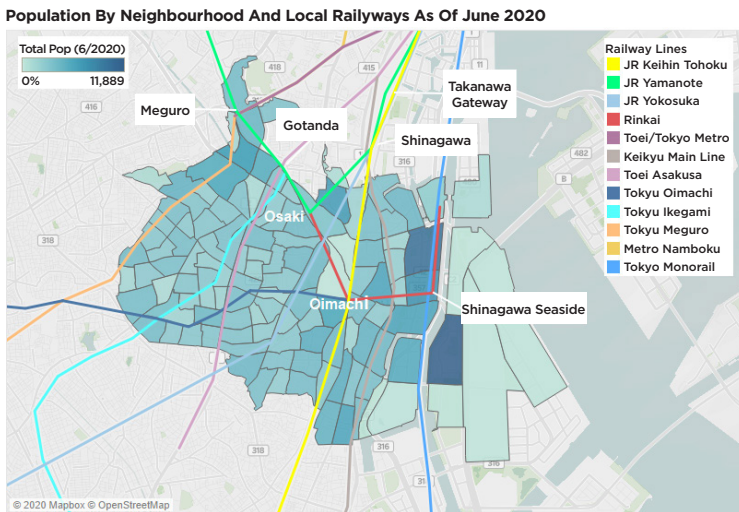
The area is now in the midst of a new redevelopment phase meant to transform the Shinagawa district into a global transportation and business hub. A major milestone of this project has just been reached with the opening of the Takanawa Gateway Station on the Yamanote Line in March 2020. Moving forward, the area is set to see a number of mixed-use developments coming online in the surrounding area, culminating in the opening of the Tokyo platform of the Chuo Shinkansen (Maglev line) at Shinagawa Station in 2027.

**Shinagawa's convenience combined with its affordability compared to Tokyo's central five wards have made it an attractive alternative for residents and corporate tenants alike, particularly in the latter stages of this upswing. Although the submarket might experience some volatility in the near-term as a result of COVID-19, Shinagawa's prospects are positive on a long-term basis.**

**C6W**

Given that it is essentially an extension of the C5W, Shinagawa is likely the safest bet

**Map 1: Shinagawa Demographics by Neighbourhood**



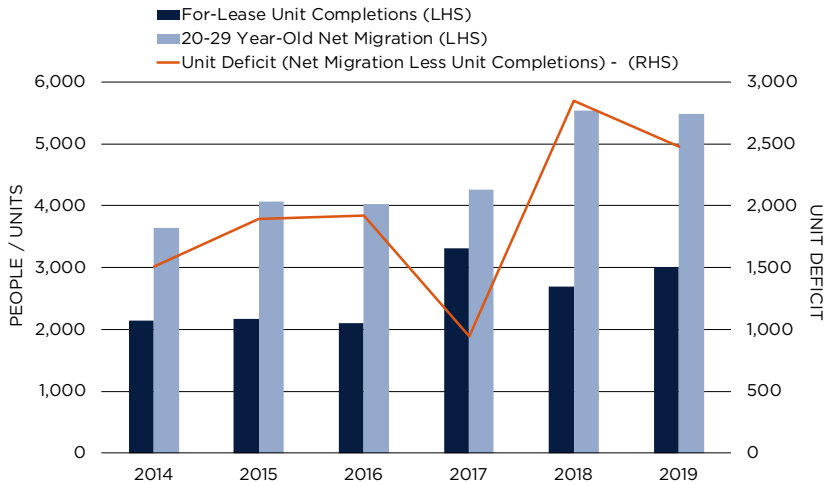
Source Shinagawa City, Statistics Bureau of Japan, Savills Research and Consultancy

amongst the markets surveyed in our reports covering the Tokyo Periphery, though upside potential may be comparatively limited as a result. Indeed, the ward has already been something of a popular target amongst overseas investors given that attractive deals in Tokyo's top submarkets have been few and far between in recent years.

Still, there are a few key differences with the central wards. For example, unlike the nearby wards of the C5W, Shinagawa has attracted a large number of young residents. Rents in the C5W are often well out of reach for the average person and this is particularly true for those in their 20s, Tokyo's largest group of migrants. In general, many have looked to peripheral wards in the South and West as a convenient alternative. It is worth noting, however, that Shinagawa is significantly more expensive than these other wards - especially nearby Ota and Setagaya - that have been magnets for these young residents (Graphs 1 & 2).

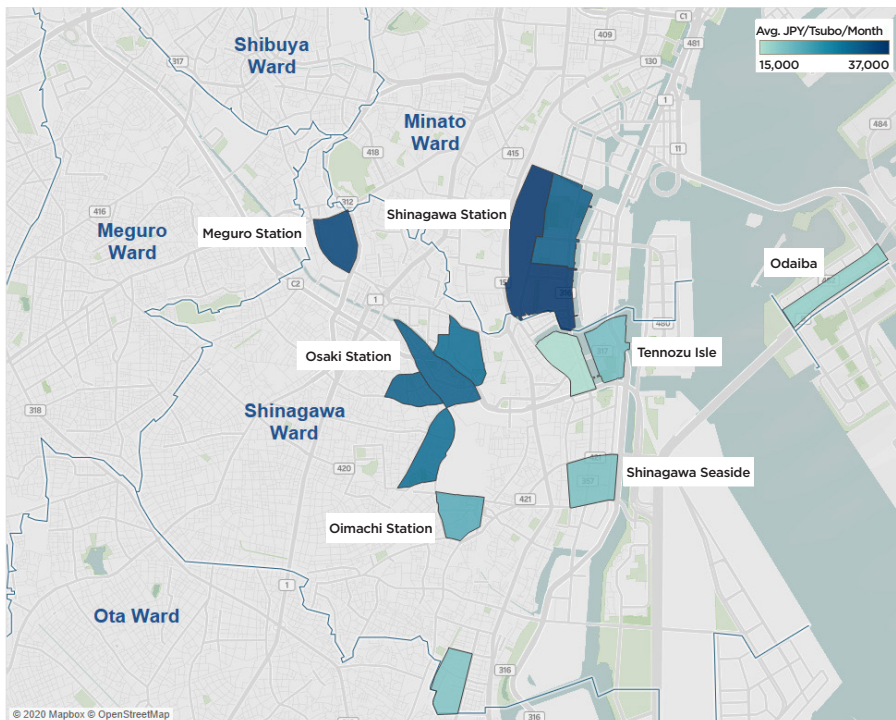
It may be the case that the ward is popular amongst new arrivals with higher incomes, possibly in the IT and software sectors. Indeed, the area has been a magnet for foreign IT giants in particular: Microsoft Japan's headquarters is located near Shinagawa Station and Amazon Japan's headquarters as well as AWS's Japan headquarters are both located near Meguro Station. Both of these areas are on the border or just outside of Shinagawa Ward, namely in Meguro and Minato, which tend to be more expensive than Shinagawa. Recent demographic data appears to lend some credence to this argument, as neighbourhoods near Meguro and Gotanda stations, as well as areas to the southeast with good access to Shinagawa Station, have seen marked increases in their populations over the past five years (Map 1).

**GRAPH 3: 20-29 Year-Old Net Migration for Shinagawa Ward vs Completion of Multifamily Units, 2014 to 2019**



Source Ministry of Land, Infrastructure, Transport, and Tourism (MLIT), Savills Research and Consultancy  
 Note: Unit completions are estimates based on housing starts disclosed by MLIT.

**MAP 2: Shinagawa Area Office Submarkets (Grade A), Q1/2020**



Source Savills Research and Consultancy  
 Note: Highlighted areas above reflect the “Cho” (neighbourhoods) containing Grade A offices in - and near the border of - the Shinagawa Ward.

The ward has in fact seen a notable uptick in net migration over the past two years. Large office developments proceeding around Shibuya Station and additional corporate relocations to the Shinagawa office market may be partly responsible for this increase. As in the Tokyo 23W at large, the supply-demand balance of multifamily residential units appears to be favourable for landlords. Graph 3 compares housing starts data and the net migration of residents in the 20-29 age bracket over the past six years. On average over this period, migrants in this age bracket have exceeded new multi-family units coming online by around 2,000 each year. Given that residents in their 20s are unlikely to purchase condominiums in the ward, it appears that new demand for units is outpacing new supply. As such, there may still be room for rental growth in the submarket, assuming that migration does not grind to a halt.

**A TALE OF TWO SHINAGAWAS**

Despite its name, Shinagawa Station is not in fact located in the Shinagawa Ward, but just a stone’s throw to the north in the Konan neighbourhood of the Minato Ward. Even so, the name “Shinagawa” itself is often used to refer to the business district surrounding the station. Due to its location in the Minato Ward and convenient access, this area tends to be much pricier than the Shinagawa Ward proper, especially compared to nearby Higashi Shinagawa, which includes the Tennozu Isle and Shinagawa Seaside office submarkets (Map 2).

Shinagawa Station is a major railway hub in the Takanawa and Konan districts of Minato, operated by East Japan Railway Company (JR East), Central Japan Railway Company, and the private railway operator Keikyu. Among the largest JR Stations in the region, Shinagawa Station sees approximately 400,000 passengers board or disembark from the station on average every day (Graph 4). The Tokaido Shinkansen and other trains to the Miura Peninsula, Izu Peninsula, and the Tokai region pass through here, connecting with Nagoya and Osaka. Shinagawa is not served by the Tokyo subway network, though it is connected to the Toei Asakusa Line via Keikyu through services. Haneda International Airport, the busiest airport in the country, is also accessible in under 20 minutes.

With excellent transport access to other parts of the Tokyo Metropolitan area, as well as serving as a gateway to Tokyo from other parts of the country via the Tokaido Shinkansen and Haneda Airport, all the while being affordable, the Shinagawa business district is home to a number of major corporations. Electronics and IT companies have a particularly strong presence in the area. The Japan headquarters of Samsung and Microsoft for example, are both located in Shinagawa Grand Central Tower,

while Sony City, Sony's global headquarters complex, is also located just east of Shinagawa Station. Further, Toyota Systems will base its Tokyo head office in Shinagawa Heart, which was completed in February 2019, along with multiple companies related to Macnica Fuji Electronics Holdings.

Looking ahead, the Linear Chuo Shinkansen

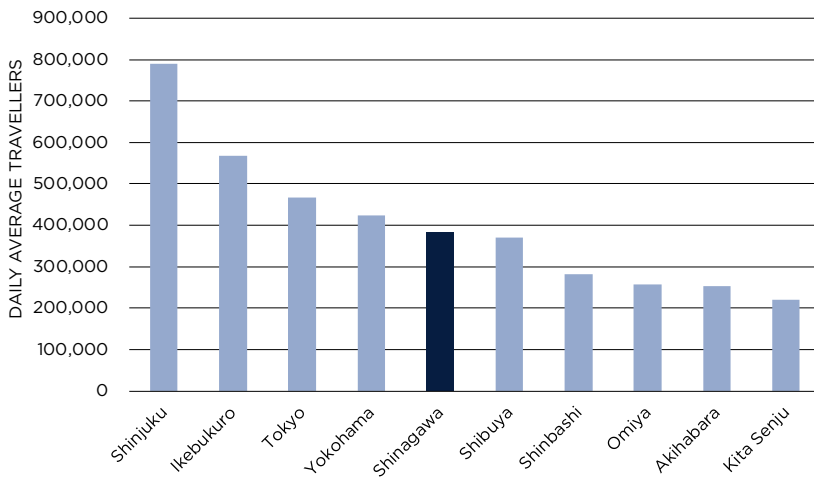
(Maglev line) Station is set to open in 2027, which will reduce travel time from Tokyo to Nagoya by 60%, from 100 minutes to 40 minutes. The extension of the line to Osaka is scheduled for completion in 2037, connecting Tokyo and Osaka in around 70 minutes. This will create a massive commuter belt extending from East to West Japan.

In anticipation of the Maglev line and in an effort to transform the area into a global business hub, JR East has undertaken a massive 500 billion yen development project around Shinagawa Station. Dubbed the Shinagawa Development Project (phase I), this initiative is set to bring online 260,000 tsubo of mixed-used space by 2025. This development is likely to make 2025 a major office supply year, comparable to the levels of 2020 and 2023 in the C5W as a whole. If completed as planned, the scale of the project would be larger than that of Roppongi Hills in terms of GFA. The development will include four high-rise towers around 170 metres tall, including an office tower, two mixed-use hotel and office towers, and an 860-unit apartment building. The station itself will see refurbishment to accommodate the Maglev line.

A major leg of the project was completed just to the north of Shinagawa Station in March 2020, with the opening of the new Takanawa Gateway Station, adding a new stop along the Yamanote Line – the first since 1971 – as well as the Keihin-Tohoku Line, which extends north to Omiya, Saitama and south to Yokohama.

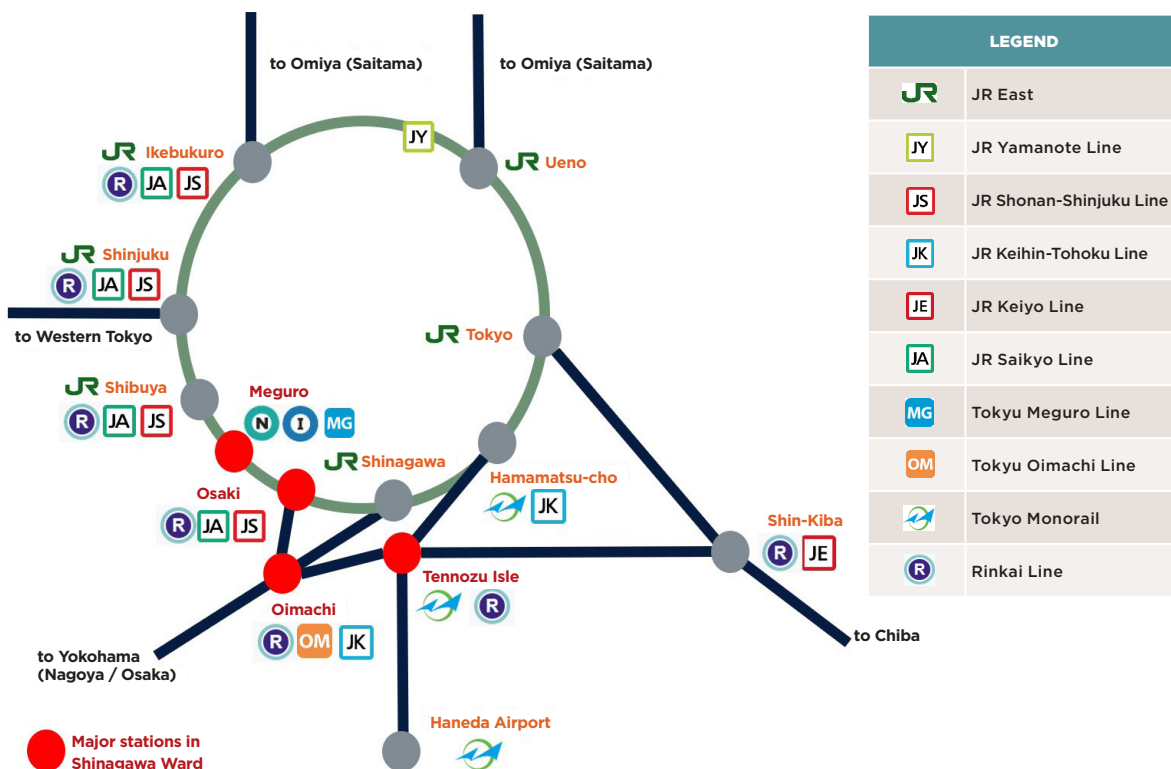
(Please refer to our Spotlight Report “[Tokyo Periphery and Rail Transit](#)” for further analysis on rail access and major transit hubs in the Tokyo Periphery).

**GRAPH 4: Top 10 JR East (Tokyo Metropolitan Area) Stations by Average Daily Footfall, FY2018**



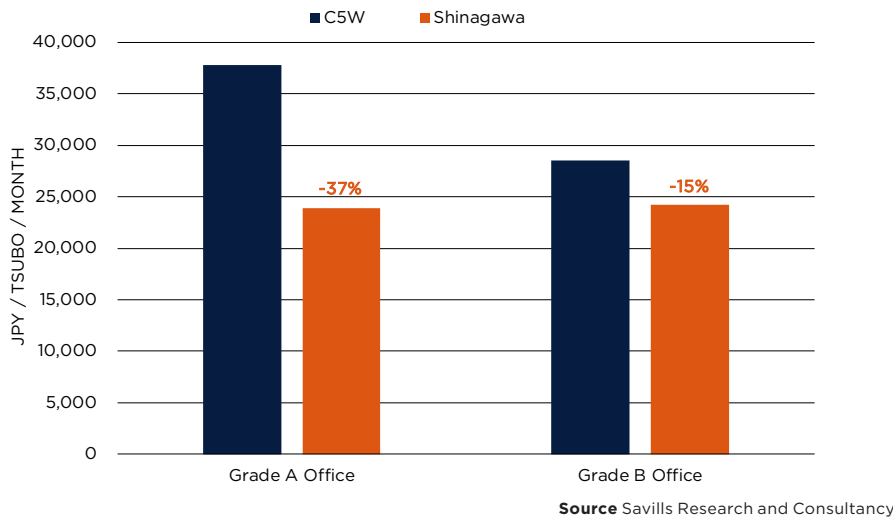
Source JR East, Savills Research and Consultancy  
Note: Passenger numbers above only represent riders using JR East.

**MAP 3: Overview of Railway Access around Shinagawa**

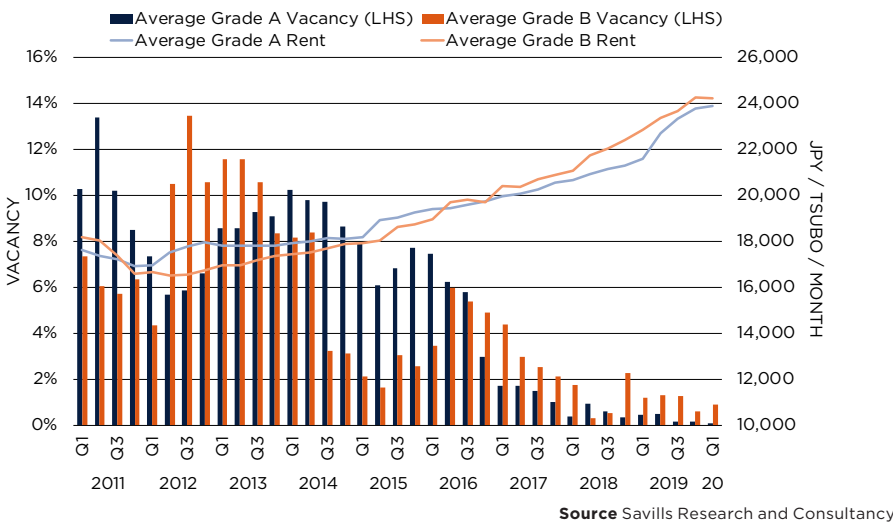


Source Savills Research and Consultancy

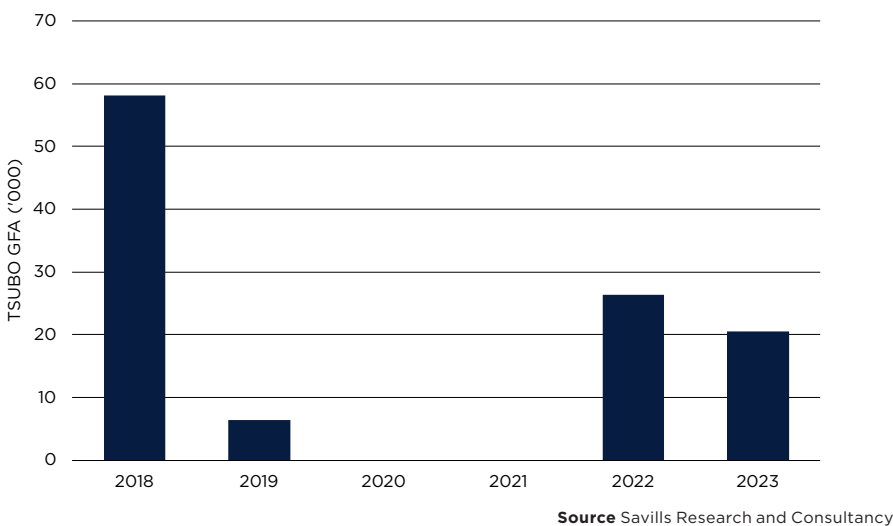
**GRAPH 5: C5W Rents vs. Shinagawa Ward Office Rents, Q1/2020**



**GRAPH 6: Shinagawa Ward Grade A and Grade B Rents, 2011 to Q1/2020**



**GRAPH 7: Shinagawa Large-Scale Office Supply, 2018 to 2023**



**AN ALTERNATIVE OPTION FOR CORPORATES**

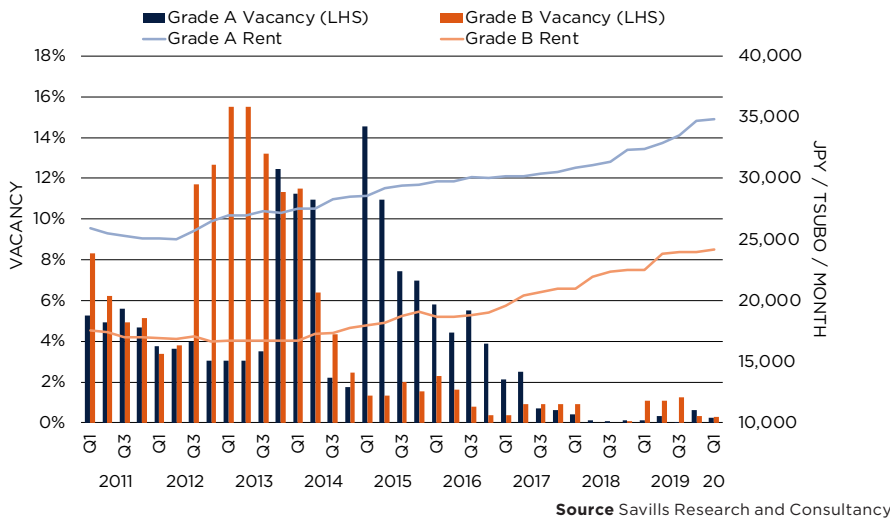
As conveniently located and affordable space in the C5W has been essentially unavailable, tenants have been increasingly looking outside of central Tokyo to find office space. Shinagawa Ward appears to have been one of the primary beneficiaries of this trend, with its market heating up considerably in recent years. In addition to being a popular residential district itself, Shinagawa is also easily accessible from other popular residential areas, such as Ota and Setagaya, as well as Kawasaki and the residential districts of Yokohama. Rents have picked up substantially as a result, though the ward still offers a substantial discount over the C5W (Graph 5). As companies adjust their office leasing strategies in response to COVID-19, this trend may accelerate.

Rents in the ward vary widely depending on the submarket, with the highest passing rents occurring around Meguro and Osaki stations. Moreover, buildings around Shinagawa Station, which – as noted previously – is technically located in the Minato Ward, also tend to have much higher rents. On the other hand, the eastern and southern areas of the ward, such as Tennozu Isle, generally see lower rents. Office buildings in these areas also tend to have larger floor plates and are thus considered Grade A office property. Despite offering more space, the location of these buildings tends to bring down passing rents, resulting in the ward’s Grade B rents effectively exceeding those of Grade A (Graph 6). That said, the gap has largely closed over the past year, as Grade A vacancy has fallen to an airtight 0.1% while the Grade B subsector has had some lingering vacancy.

Shinagawa has already seen much of its large-scale office development pipeline completed in 2018, with the addition of the Osaki Garden Tower, coming in at almost 55,000 tsubo of GFA. No additional large-scale supply is expected until 2022, when Sumitomo Realty & Development expects to complete a 15,000 tsubo office building in Kita-Shinagawa, while Japan Post is set to complete a 20,000 tsubo office in Gotanda. Looking further ahead, 2025 will likely be one of the largest office supply years on record for the Shinagawa area, as phase I of the Shinagawa Development Project (developments around Takanawa Gateway Station) is completed.

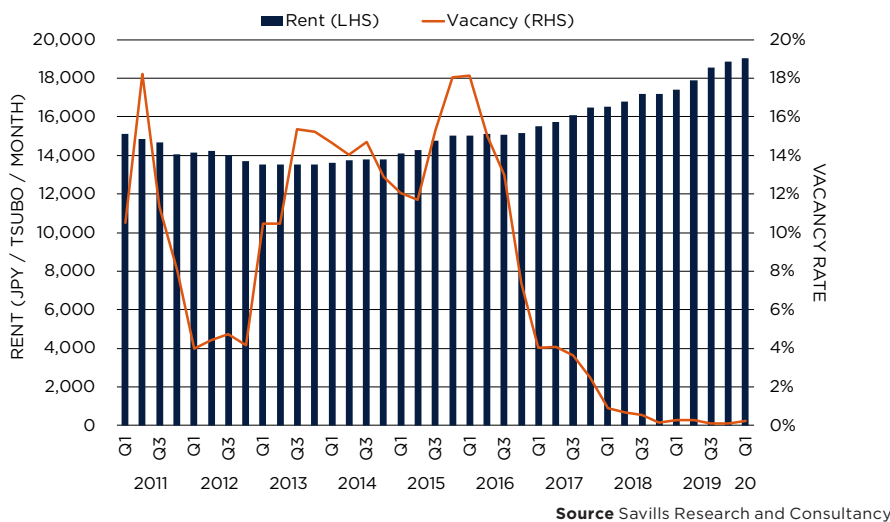
The Shinagawa Station area has a higher premium than surrounding areas, particularly Tennozu Isle and Shinagawa Seaside, but provides excellent access to other parts of Tokyo as well as other regions of Japan. Indeed, as of Q1/2020, average Grade A office rents in the Shinagawa Station area landed around JPY35,000 per tsubo per month, an estimated

**GRAPH 8: Office Rents and Vacancy in Shinagawa Station, 2011 to Q1/2020**



Source Savills Research and Consultancy

**GRAPH 9: Office Rents and Vacancy in Higashi Shinagawa, 2011 to Q1/2020**



Source Savills Research and Consultancy

83% premium over average rents in Tennozu. Grade B rents in the area are more mild, coming in at JPY24,000 per tsubo per month as of Q1/2020. Grade A office vacancy in Shinagawa Station has contracted to 0.3% and availability remains severely limited. Grade B vacancy briefly ticked up as a result of the relocation of a mid-sized tenant in early 2019; however, this space was soon leased up and vacancy now sits at an airtight 0.1%. Indeed, the area is likely to remain attractive for both office tenants and residents for the foreseeable future.

**HIGASHI SHINAGAWA (TENNOZU ISLE & SHINAGAWA SEASIDE)**

Given the lack of opportunities in more centrally located areas, the Higashi Shinagawa submarket in particular has been a common target for cross-border office investment in recent years. The submarket

itself can be roughly divided into the Tennozu Isle and Shinagawa Seaside neighbourhoods, both of which contain high-grade office buildings.

Tennozu Isle has been developed since the late 1980s and is packed with offices offering large standard floor plates and vistas of the bay area. As transit access is somewhat limited, the area is not an ideal base for employees conducting outside sales activities. For this reason, companies tend to house administrative functions on the island. On the other hand, Tennozu Isle is easily accessible from Haneda International Airport via the Tokyo Monorail. As such, major tenants in the area include shipping and transport companies, such as DHL, as well as the headquarters of Japan Airlines and the domestic travel company JTB. Even so, area tenants are not necessarily limited

to transport firms. Panasonic, for example, bases its Tokyo office in the area at Tokyo Front Terrace.

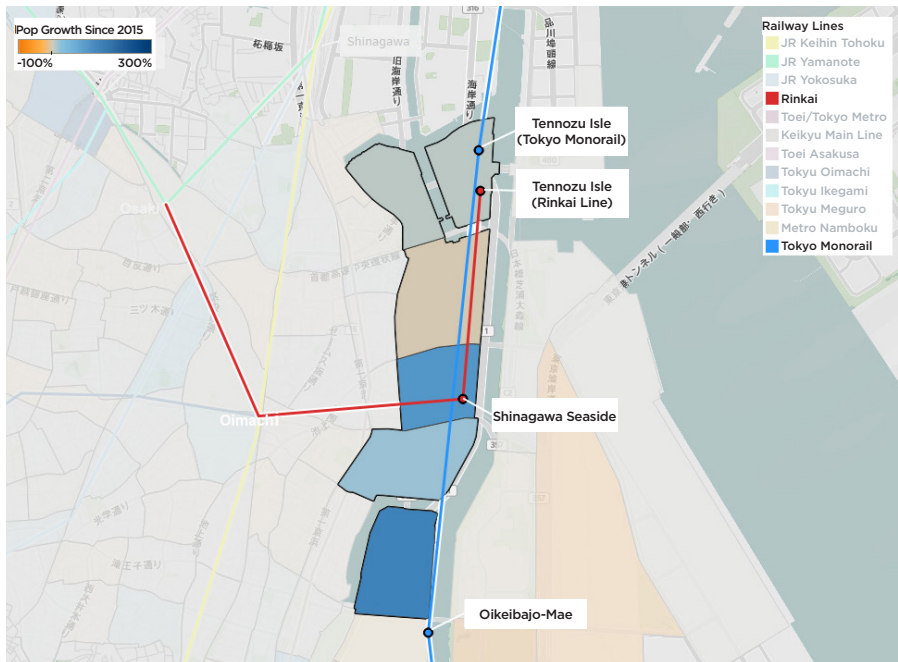
The Shinagawa Seaside area, one stop to the south of Tennozu Isle on the Rinkai Line, was developed as a high-grade office area since the early 2000s. This large development includes Hitachi Solutions Tower A and B, which were completed in September 2002, Rakuten Tower (Shinagawa Seaside North Tower) and Shinagawa Seaside Towers Park, South, East, and West in 2003 and 2004. Though Rakuten relocated its headquarters to Futako Tamagawa in the Setagaya Ward in 2014, the area offers relatively new, large-scale buildings, which have seen strong demand from companies in need of a large floor plates. Major tenants in the area include Mercedes Benz, which bases its Japan headquarters in Shinagawa Seaside Park Tower, as well as Hitachi Solutions, a subsidiary of Hitachi Group, which occupies Hitachi Solutions Tower A and B.

The Higashi Shinagawa submarket suffered from large vacancy several years ago after companies moved to central Tokyo. However, vacant space has since been rapidly absorbed and vacancy rates have tightened as large-scale availability has now become extremely limited in more central areas. Rents in the submarket have grown rapidly through the current upswing, now landing around JPY19,000 per tsubo per month, with some buildings achieving rents of over JPY20,000 per tsubo. This is still well below the average for the Shinagawa Ward, however, and a far cry from passing rents around Shinagawa Station.

Indeed, Higashi Shinagawa has one of the highest discounts among office submarkets in central Tokyo. On the other hand, railway access is less convenient than in other areas. The average employee of a company based here may have to make multiple transfers in order to commute. Additionally, despite offering larger floorplates, office buildings in the area - particularly those of Tennozu Isle - are somewhat older than in other submarkets. Prospective tenants would have to weigh the cost savings potential with these factors.

When central areas start to see more availability, tenants in Higashi Shinagawa may move to more convenient central areas - likely causing vacancy to increase earlier than in other submarkets. That said, as shown in Map 4 overleaf, some neighbourhoods in the area have seen substantial increases in their residential populations, perhaps making these offices accessible to a larger set of the workforce and thereby improving the submarket's staying power going forward.

MAP 4: Higashi Shinagawa Population Growth and Railway Access



Source Shinagawa City, Statistics Bureau of Japan, Savills Research and Consultancy

**OUTLOOK**

During the latter stages of the latest property upswing, Shinagawa quickly emerged as an affordable, centrally located alternative for households and companies alike. Investors have similarly been targeting assets in the area in light of the bullish pricing at the capital’s core. Trends in living and working may be on the cusp of a major shift, however, and it ultimately remains to be seen how well Shinagawa will fare under the “new normal”.

Regardless, the area is on a long-term growth track spurred by multiple development projects. The opening of the Takanawa Gateway Station in March 2020, along with the surrounding developments coming online over the next five years, should make both Shinagawa Station and nearby Shinagawa Ward a more attractive area for corporate tenants and residents. The inauguration of the Maglev line in 2027 will further build on this momentum and solidify the area’s position as a global gateway.



For more information about this report, please contact us

**Savills Japan**

**Christian Mancini**  
 CEO, Asia Pacific  
 (Ex. Greater China)  
 +81 3 6777 5150  
 cmancini@savills.co.jp

**Savills Research**

**Tetsuya Kaneko**  
 Director, Head of Research  
 & Consultancy, Japan  
 +81 3 6777 5192  
 tkaneko@savills.co.jp

**Matthew D’Elia**  
 Manager, Research &  
 Consultancy, Japan  
 +81 3 6777 5179  
 mdelia@savills.co.jp

**Simon Smith**  
 Senior Director  
 Asia Pacific  
 +852 2842 4573  
 ssmith@savills.com.hk