

## Observations on the Trend of Corporate Relocations

The relationship between corporate relocations and Tokyo's office space market based on historical data

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Offices are essential managerial resources of companies and the basis of corporate activity. Companies set up offices in certain places but may relocate them to another place (corporate relocation) for various reasons. An examination of the trend of such corporate relocations will likely lead to a deeper understanding of the supply and demand relationship in the office space market. In this report, Xymax Real Estate Institute ("Xymax REI") considers the future direction of corporate relocations by identifying the relationship between historical corporate relocation trends and office space market indicators using its data of company relocations in Tokyo, which Xymax REI has gathered since the 2000s.

### Key Findings

The following was found as a result of a comparison of corporate relocations in Tokyo<sup>\*1</sup> between central areas<sup>\*2</sup> and peripheral areas<sup>\*3</sup> and office space market indicators of the central areas:

- The percentage of corporate relocations from peripheral areas to central areas increased between 2003 and 2005 but decreased between 2006 and 2009. It saw a resurgence between 2010 and 2014 but has been on a mild declining trend since 2015.
- The percentage of relocations to central areas drops with a rise in rent levels in those areas, while the percentage rises with a drop in the rent levels in central areas.
- While the percentage of relocations to central areas drops after the vacancy rate of those areas drops, the percentage rises after the vacancy rate rises.
- The historical trend suggests that the percentage of company relocations to central areas will increase when the office space market of the central areas enters a declining phase. However, companies' reexamination of office strategies due to work style reforms and the corona pandemic may fundamentally change the workings of corporate relocations.

\*1 Includes relocations of branch offices and sales offices, in addition to relocations of headquarters.

\*2 Chiyoda, Chuo, Minato, Shinjuku, and Shibuya Wards

\*3 Areas of Tokyo other than the five wards mentioned in \*2 above

## 1. Introduction

On conducting this survey, we gathered data for 5,541 cases of corporate relocations in Tokyo between 2002 and 2019 and extracted 1,094 cases of relocations that occurred between the central areas and peripheral areas (**Figure 1**). From these relocation data, we aggregated the annual percentages of relocations to and from central areas. In section 2, we examined corporate relocation trends by comparing the aggregate results and office space market indicators.

**Figure 1: Classification of Corporate Relocations**

Relocating from:	Relocating to:	Classification
Central areas →	Central areas =	Relocation within central areas ⇒ Internal relocation
Peripheral areas →	Peripheral areas =	Relocation within peripheral areas
Central areas →	Peripheral areas =	Relocation from central areas ⇒ Relocation between central & peripheral areas
Peripheral areas →	Central areas =	Relocation to central areas

In this survey we focused only on relocations between central and peripheral areas. Relocations within central areas and peripheral areas are mostly due to individual circumstances of the company (i.e., expiry of contract, insufficient space, the pursuit of office environment improvement) and do not offer insight into common backgrounds seen in the market. On the other hand, we believe that the decision of a “dynamic relocation” such as a relocation between central and peripheral areas is associated with the following four elements of the area where the company decided to relocate, as it has a large impact on employees’ commute, the distance from client companies, recruiting and other corporate activities:

- ① Business convenience: Numbers of railway stations, shops, municipal/government offices and financial institutions; access to clients
- ② Characteristics of the area that are suitable for the company: Industries clustered in the area; features of the area
- ③ **Affordable rent levels**
- ④ **Amount of office space that meets the company’s need (vacancy rate)**

Of the above elements, ① and ② do not change over a short period of time, while ③ and ④ (the rent level and amount of vacancies) change in cycles of several years. Therefore, a comparison between the trend of these indicators and the aggregation results is likely to provide an insight into the background to the changes in the trend of corporate relocations over time.

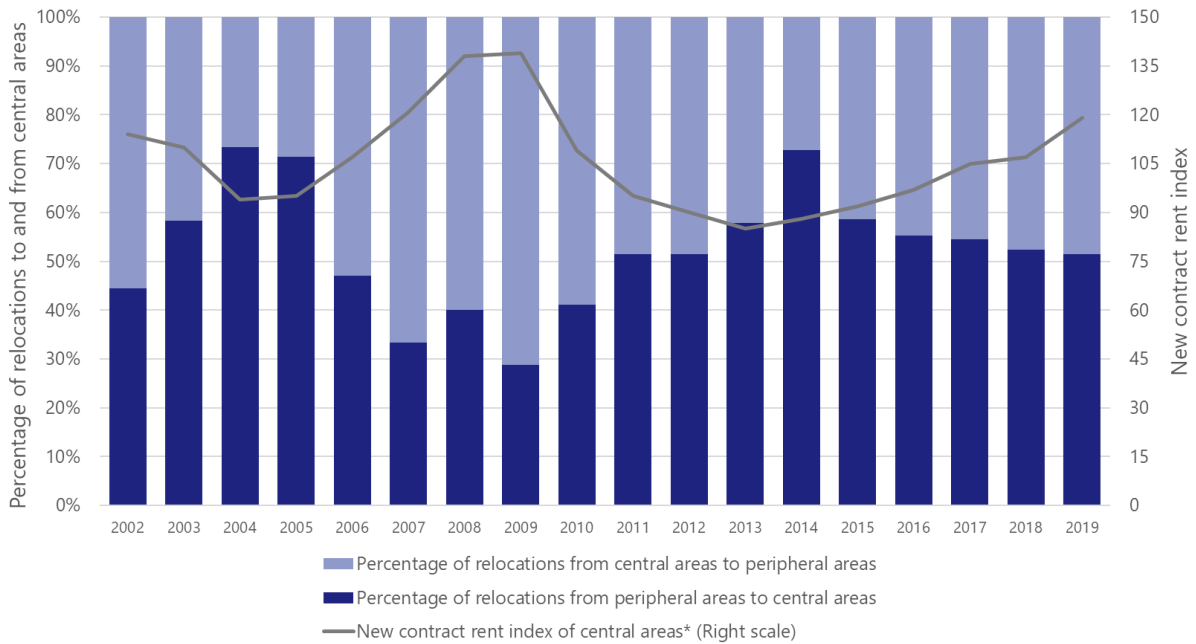
## 2. Change in the Percentage of Relocations to Central Areas and the Office Space Market

**Figure 2** shows the relationship between the trend of corporate relocations and rent levels (expressed in the new contract rent index). As rent is the largest fixed cost for companies after personnel expenses, it is obviously taken into consideration upon relocation. The percentage of relocations to central areas increased between 2003 and 2004 and between 2010 and 2014, when rent levels of those areas declined. Many companies appear to have relocated to central areas due to the lower rent levels. Meanwhile, we can assume that the higher rent levels of central areas between 2006 and 2009 placed a burden on companies, leading to a drop in the percentage of relocations to central areas. The percentage of relocations to central areas has been gradually declining with the recent mild rise in rent.

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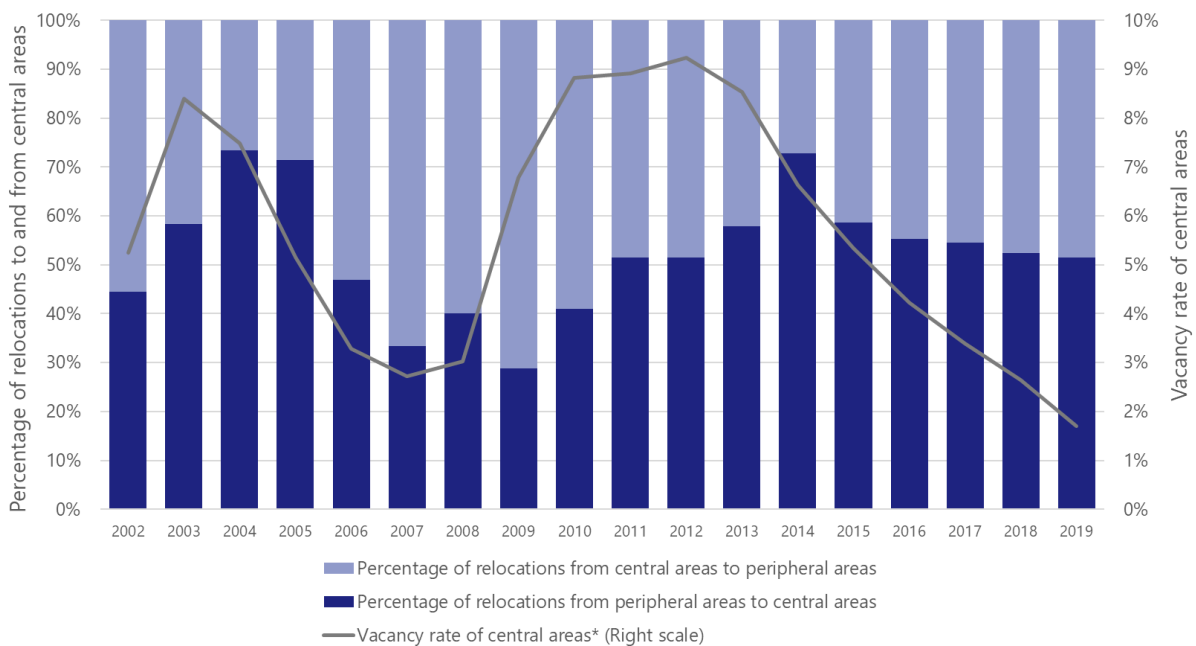
**Figure 2: Trend of Corporate Relocations and Rent Levels**



\*The new contract rent index for the five central wards for the first quarter of each year (Source: Xymax REI)

**Figure 3** shows the relationship between the trend of corporate relocations and the supply of office space (expressed in vacancy rate). Office space that suits companies’ needs tends to increase as the vacancy rate of the central areas rises, resulting in a higher percentage of corporate relocations to central areas. On the other hand, a drop in the vacancy rate of central areas means the amount of vacant space itself decreases, which limits the amount of vacant space available for relocation. This prevents companies from relocating, resulting in a drop in the percentage of relocations to central areas.

**Figure 3: Trend of Corporate Relocations and Vacancy Rates**



\*Vacancy rate of Tokyo's business districts (five central wards) in April of each year (Source: Miki Shoji)

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### 3. Conclusion

Corporate relocations are the key link between developments in society, corporate activities and the real estate market. Changes in the Japanese economy and companies’ business sentiment affect office demand. Companies relocate due to changes in the supply of office space and rent levels. In other words, corporate relocations happen within the supply and demand balance in the office space market.

In this report, we analyzed the relationship between the trend of corporate relocations and the office space market based on the data of corporate relocations in Tokyo that occurred between central areas and peripheral areas. We believe this analysis suggests that changes in office market indicators going forward will provide an insight into the future trend of corporate relocations.

The office market has recently been showing signs of vacancy rates rising and rent dropping.\*4 If things developed as they have done historically, we can assume that the percentage of corporate relocations into central areas would increase in the future. However, **the workings of corporate relocations may see a fundamental change as work style reforms, which have been making progress over the past few years, and the new coronavirus pandemic that broke out in 2020 give rise to new office strategy options for companies, including telework from home or satellite offices.** Therefore, even if vacancies increased and rent dropped in the office market in the future, we may not see an increase in corporate relocations to central areas as we had before. Xymax REI will continue to provide beneficial information by continuously observing and analyzing companies’ relocation and other office strategies.

\*4 See *Office Market Report Tokyo | Q2 2020*, released on August 5, 2020  
<https://www.xymax.co.jp/english/research/images/pdf/20200805.pdf>

#### Survey Overview

<b>Survey period</b>	2002 – 2019
<b>Target respondents</b>	Data of 1,094 corporate relocations that occurred between central areas and peripheral areas (from among 5,541 cases of corporate relocations)
<b>Geographical coverage</b>	Tokyo
<b>Survey method</b>	Data published on company websites, newspaper articles, etc.

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