Promoting Grade-A Office Districts with an Upgraded Railway Hub for Global Business Competitiveness

The case of Otemachi-Marunouchi-Yurakucho (OMY) around Tokyo

Tokyo Development Learning Center

Japan Project Brief

Background and Objectives

The districts of Otemachi-Marunouchi-Yurakucho (OMY) are progressively forming into the global business, financial and economic center of the nation. The area is located between the Imperial Palace and Tokyo Station – the oldest and largest railway hub in Japan, similar to Grand Central Station in New York and King's Cross Square Station in London. The 120 hectares of prestigious office area accommodates about 230,000 business workers in a number of high-rise buildings, of which 30 properties are owned and managed by Mitsubishi Estate – one of the top real estate companies in Japan. The vast land of Marunouchi next to Tokyo Station was originally transferred from the Army to Mitsubishi in 1890 and subsequently transformed into the nation's primary business center with a classic redbrick design, called "New York Block", during the period of industrialization (1890's – 1930's) and later became the location of some of the capital's modern skyscrapers in the period of rapid economic growth (1950's -1970's).

However, the OMY area once lost its competitive position with the emergence of domestic and international competitors, especially after the crash of Japan's asset bubble economy around 1991. The new sub-centers of Shinjuku, Shibuya, and Ikebukuro with updated office estates provided by Mitsubishi's rival developers largely relocated a number of business tenants and related producer services from the outdated buildings in Marunouchi. More critically, the main offices of the Tokyo Metropolitan Government and other important public corporations were moved out around 1991. Furthermore, multinational corporations gradually moved their headquarter functions from Tokyo to emerging international business hubs in Asia, such as Hong Kong, Singapore, and Shanghai.

In order to regain a competitive position for Japan's major cities and traditional business districts in both the domestic and international markets, the national government has shifted its development strategy from polycentric decentralization to urban regeneration. It should be noted that this shift was initiated by the cabinet in response to rapid changes in social conditions, such as globalization, information society, declining birthrate, and aging population. In particular, the Urban Renaissance Special Measure Law of 2002 relaxes land use regulations and offers generous conditions for private landlords and developers to propose urban redevelopment plans more flexibly and actively in designated business districts. When the proposed plan meets public benefits, its private stakeholders can enjoy a variety of incentives such as tax reductions, low interest rates, and floor area ratio (FAR) exemptions for more efficient and profitable redevelopment practices. On the basis of this special measure law, the OMY districts were designated as one of the Special Urban Renaissance Urgent Development Areas wherein extra fiscal advantages can be rewarded for further private capital investments in addition to the above incentives.

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Project Overview

Among many projects delivered in the OMY districts around Tokyo Station, the practices of "Preservation of Tokyo Station financed by FAR transfer", "Chain Urban Renaissance", and "Area Management by Public-Private Partnership" are of particular importance for public-private stakeholders to produce globally competitive business clusters in sustainable ways:

Preservation of Tokyo Station Financed by FAR transfer

Accompanied by private redevelopment projects, the national government decided to restore the old redbrick building of Tokyo Station, initially built in 1912 and damaged by firebombing during World War II. While the symbolic building restoration was expected to have broader social and cultural benefits for the neighboring business districts, its project cost was estimated around JPY50 billion. In order to meet both social and commercial objectives, the site of Tokyo Station was extensively designated as a zone for the special FAR exemption and allowed to transfer the unused FARs from the historic redbrick building to the neighboring lots for new commercial tower developments. The station building restoration, partially financed by the FAR transfer revenues, was successfully completed in 2013 by East Japan Railway Company (JR East, the former national railways corporation privatized in 1986), which also developed two 205-meter tall skyscrapers among the towers with extra FARs, and reinvested the increase in land value of the densified grade-A office[1] buildings to cover the railway finance. To improve the district further, the current provision of a multimodal transportation square for regular bus and taxi services plans is to be completed by JR East in partnership with the Tokyo Metropolitan Government in 2017.

Sequential Redevelopment of the Marunouchi Area

Mitsubishi Estate plays a chief role in implementing a series of redevelopment projects over the office districts of Marunouchi with the application of "Chain Urban Renaissance." Chain Urban Renaissance is a unique method of redeveloping large office districts sequentially over the long term. First, the developer acquires a vacant plot of land and builds a high-rise tower for tenants and property owners of the old buildings. Next, the old building is rebuilt and tenants and landholders of the next redevelopment area are relocated again to the new building. By repeating this process, the developer can continuously handle a chain of urban redevelopment projects without losing good business tenants from their business territories. Furthermore, in response to drastic changes in Japan's business climate, Mitsubishi updated the "Marunouchi Restructuring Plan" in 2002 to form an internationally competitive "fast-rate" office district for the long term. As part of this redevelopment strategy, six high-rise office towers were completed until 2007 and currently six more towers are scheduled to be completed by 2017.

Figure 1: Image of Tokyo Station and completed multimodal transit terminal

Source: East Japan Railway Company Home Page. Projects in progress. https://www.jreast.co.jp/construction/station/

Area Management in collaboration of public and private

The long-term plan of OMY is embodied not merely by one private developer but jointly initiated by a group of public-private stakeholders across the local business districts.

Indeed, the Council for Area Development and Management of OMY, being comprised of 68 landowners, 12 observers, and 8 special members in 2016, established the Advisory Committee on OMY Area Development in 1996 together with the Tokyo Metropolitan Government, Chiyoda Ward, and East Japan Railway Company. As the first area management initiative in the country, the Committee regularly updates the guidelines for redevelopment activities since 1998. These guidelines set out 8 development goals, key functions of zones, axes, and hubs, district design standards, and local operation rules for coordinating cityscape, networking public open spaces, and transferring FARs. Furthermore, the committee has introduced a variety of area management and place-making initiatives as follows:

- Free loop bus service, called Marunouchi Shuttle Bus, is provided by local business owners within the OMY area;
- Narrow streets were converted into car-free public spaces for a wide range of economic and social activities, such as recreations, events, and open cafes;
- A district-level association was established to assist local commuters in the case of natural disasters. Nineteen building owners agreed to take in stranded commuters from outside the district if they were unable to use public transportation due to natural disasters; and
- Various city events (e.g., festivals, sport competitions, morning university lectures) regularly took place.

Project Impacts

Economic Impact:

The creation of a high-quality business environment in the OMY area has increased labor productivity in the knowledge-based sector, increased demand for grade-A office spaces, and, in turn, land values have risen significantly. Accompanied by the resurgence of knowledge-based business clusters, Marunouchi's high-end retail streets are likely to see an upturn in recent sales figures;

Social Impact:

The OMY area was previously called "weekdays & daytime city" due to the high percentage of office use. However, it is now an area that attracts people and encourages pedestrian flows over the weekends, thanks to a variety of area management initiatives and local place-making efforts. In fact, the number of weekend visitors largely increased after the completion of major redevelopment projects and the number of pedestrians walking through the area grew 2.8 times from 2002 to 2015[2]. The number of shuttle bus users was also recorded as growing more than three times from 2003 to 2014. The redbrick building revived by the application of FAR transfers successfully balanced the cultural and commercial values of Tokyo Station and surrounding office towers.

Environmental Impact:

Urban greenery is carefully incorporated to cover about 16,000 m^2 of rooftops and building walls. Also, the area management initiatives, such as running shuttle buses and utilizing on-street open spaces, are likely to contribute to reducing GHG emissions by encouraging the use of public transportation systems and non-motorized travel across the business districts.

Lessons Learned

The provision of high-amenity office districts around transportation hubs appears to be a common economic development strategy across global business centers, such as New York, London, Hong Kong, Singapore, and Shanghai nowadays. However, those regeneration practices are often debatable due in large part to unintended social consequences, such as urban gentrification and spatial segregation (Sassen, 2001[3], Fainstein, 2010[4]). Indeed, it is critical to promote grade-A office districts for global competitiveness with public-private entities in a sustainable manner. Key lessons from the case of OMY around Tokyo Station are summarized as below:

Market Incentives for social capital improvements:

Private redevelopment projects could meet both commercial and social objectives if market incentives are properly given for public capital improvements. In particular, the exemption and transfers of extra FARs should be designed not merely to increase short-term business profitability but rather to raise public funds for life-cycle asset management.

Long-term commitments and partnerships:

Large-scale redevelopment projects generally require the complex and painstaking coordination of property rights among various stakeholders. The long-term commitment of major developers and the establishment of horizontal partnerships are essential for intergeneration redevelopments and sustainable area management. Many details of urban design, operation, and place-making efforts must be initiated and guided in local specific ways.

Future Challenges

Large-scale regeneration projects by and large have redistributive effects on business activities around the railway hubs and/or across the office districts designated. Such adverse impacts need to be incrementally softened through inclusive land use rezoning and extensive regeneration programs.

[1] Grade-A office is generally defined as office buildings with the total floor area of more than 30,000 square meters, built within the past 15 years, located in the top five central business wards in Tokyo (i.e., Chiyoda, Chuo, Minato, Shinjuku, and Shibuya). Source: Y. Nakayama, T, Yamagata. 2015. Research on Classification of Office Buildings. ARES Journal of real estate securitization, Vol. 27. http://www.ares.or.jp/publication/pdf/ares_j27.pdf.

[2] Otemachi Marunouchi Yurakucho OMY District Area Management Report Editorial Committee. January 2016. Area Management Report 2016.

[3] Sassen, S. 2001. The global city: New York, London, Tokyo. Princeton University Press.

[4] Fainstein, S. S. 2010. The just city. Cornell University Press.

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