Xymax Research Institute
TOPIC REPORT

Deciphering Changes in the Office Market (2025)

Widening disparities between areas and a growing number of large buildings with long-term vacancies

June 4, 2025

Introduction

Tokyo's office market is currently showing a steady trend, with the most recent vacancy rate for all 23 wards in Tokyo, as of the end of April 2025, declining to 2.26%. While the vacancy rate trends suggest a return to pre-pandemic activity levels, the post-pandemic market has undergone changes from the pre-pandemic market, as discussed in *Deciphering Changes in the Office Market: Signs of change in emphasis on "near, new and large" office buildings*[*1] by Xymax Research Institute (July 2024). In the current report, we provide an in-depth examination of the changes that are taking place in the market by focusing on vacancy rates in different areas and "long-term vacant buildings," defined as buildings with a vacancy rate exceeding 20% for over 12 months, taking into account post-pandemic office market trends. The analyses were conducted in collaboration with the Nihon Keizai Shimbun[*2].

*1 *Deciphering Changes in the Office Market* (July 10, 2024)
https://www.xymax.co.jp/english/assets/pdf/news_research/20240710.pdf

*2 Related articles:
Buildings with vacancies exceeding one year in central Tokyo increased twelvefold in three years, especially in bay area. (May 18, 2025). *Nihon Keizai Shimbun* (in Japanese)
https://www.nikkei.com/article/DGXZQOUC317GU0R30C25A1000000/

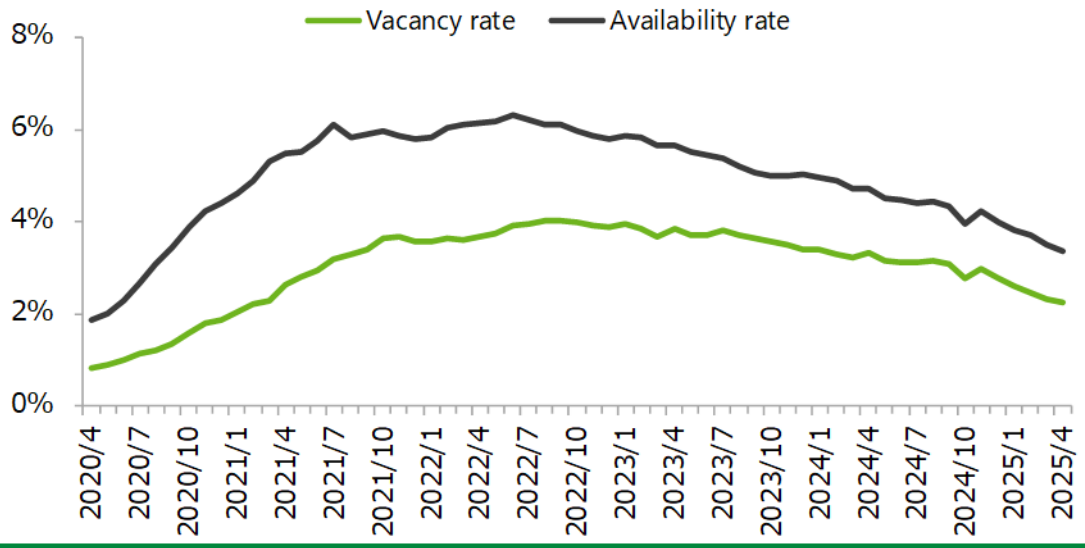
Changes occurring in office buildings in Harumi and Kachidoki: Vacancies becoming noticeable due to greater emphasis on location. (May 20, 2025). *Nihon Keizai Shimbun* (in Japanese)
https://www.nikkei.com/article/DGXZQOUC18A0W0Y5A210C2000000/

1. Robust Post-pandemic Office Market

In this chapter, we look at recent trends in the office market. First, we will show the vacancy and availability rate trends, which represent the difference between the volume of demand by tenant companies that use the offices and the volume of supply of offices for rent (Figure 1)*3.

*3 Vacant Office Space Monthly Report Tokyo | April 2025 (May 7, 2025)
https://www.xymax.co.jp/english/assets/pdf/news_research/20250507.pdf

Figure 1: Vacancy & Availability Rate – 23 Wards; All Building Sizes



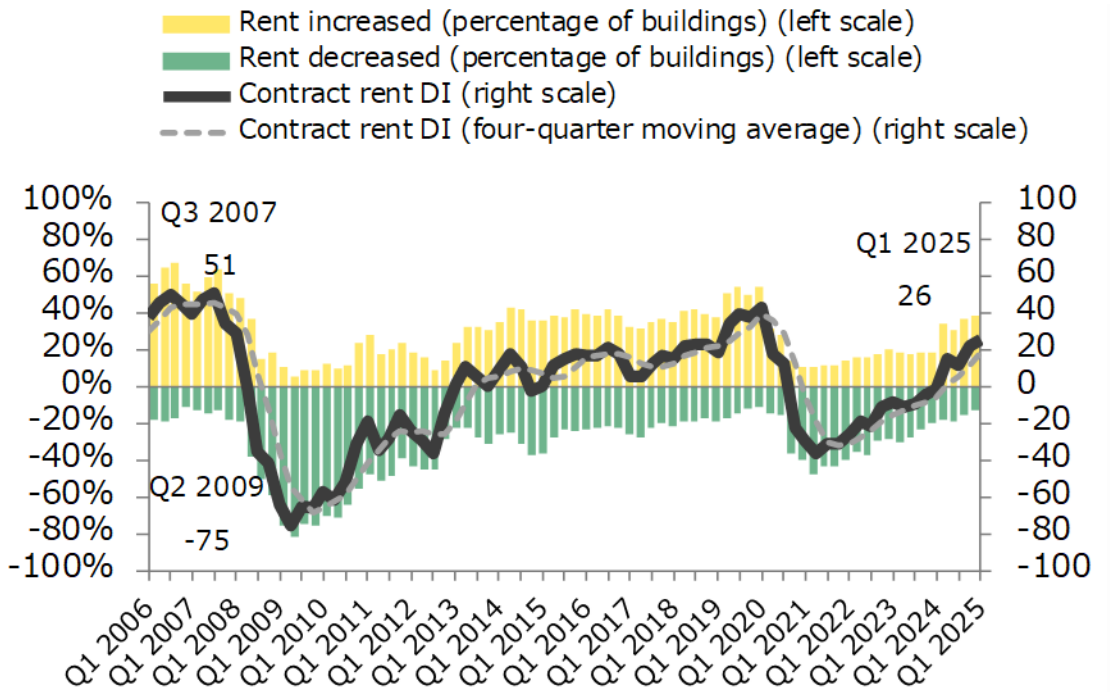
	2024/12	2025/1	2025/2	2025/3	2025/4
Vacancy rate	2.77%	2.60%	2.47%	2.33%	2.26%
Availability rate	3.99%	3.83%	3.72%	3.50%	3.37%

The vacancy rate began rising in 2020, at the start of the COVID-19 pandemic, and exceeded 4% by September 2022. As the pandemic abated and office demand recovered, the vacancy rate began to decline. Currently, it has dropped to 2.26%.

Next, to indicate the trend of rent, we present the trend of the contract rent diffusion index (DI), which is calculated by subtracting the percentage of buildings with a lower contract rent than six months prior from the percentage of buildings with a higher rent than six months prior (Figure 2)*4.

*4 *Quarterly Office Market Report Tokyo Q1 2025* (April 25, 2025)
https://www.xymax.co.jp/english/assets/pdf/news_research/20250127.pdf

Figure 2: Contract Rent DI



	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025
Contract rent DI	-1	15	12	22	26

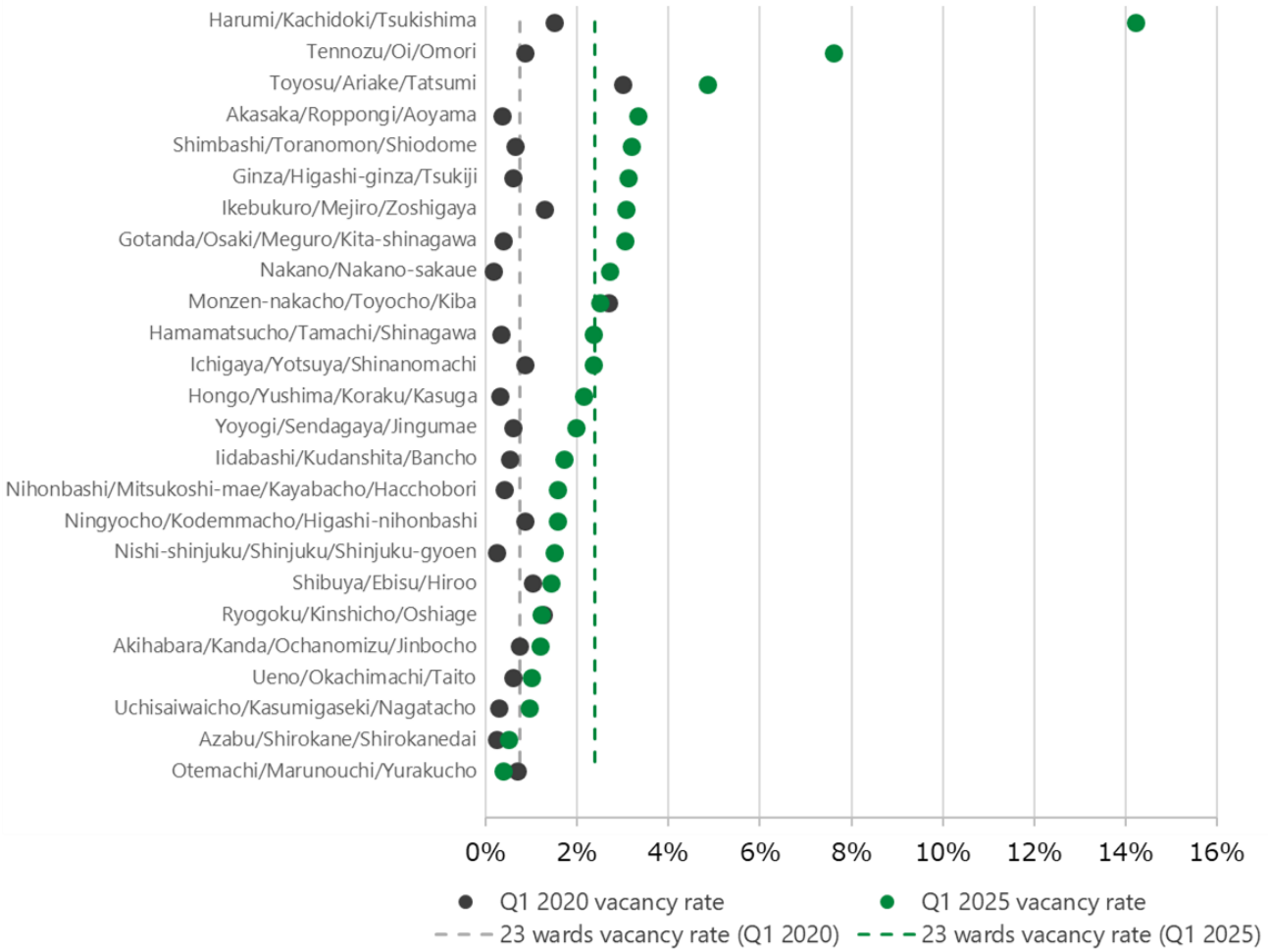
The contract rent DI remained negative for 14 consecutive quarters, from Q4 2020, when the rise in vacancy rates became prominent due to the pandemic, to Q1 2024. However, it turned positive in Q2 2024. As of Q1 2025, the percentage of buildings with higher contract rent than six months prior increased to 39%, while the percentage of buildings with lower rent was 13%, resulting in a DI rise to 26.

These data indicate that vacancy rates have steadily declined in the recent office market, and that rents are increasing in a growing number of buildings. Many in the property leasing business report that it is becoming more difficult to find buildings that meet the needs of clients seeking to relocate, and that clients are giving up on relocation due to soaring rents. These circumstances suggest that the market is shifting toward a suppliers' advantage on the back of demand from companies returning to the office following the end of the pandemic.

2. Widening Disparities in Vacancy Rates between Areas

While the office market is robust overall in the 23 wards, there are areas where vacancies that emerged during the phase of rising vacancy rates remain unfilled, keeping vacancy rates high. In Chapter 2, we will compare the vacancy rates by office area to examine disparities between areas. Figure 3 indicates the vacancy rate of each major office area in Q1 2020 (black dot), when the overall vacancy rate was the lowest before the pandemic, and Q1 2025 (green dot).

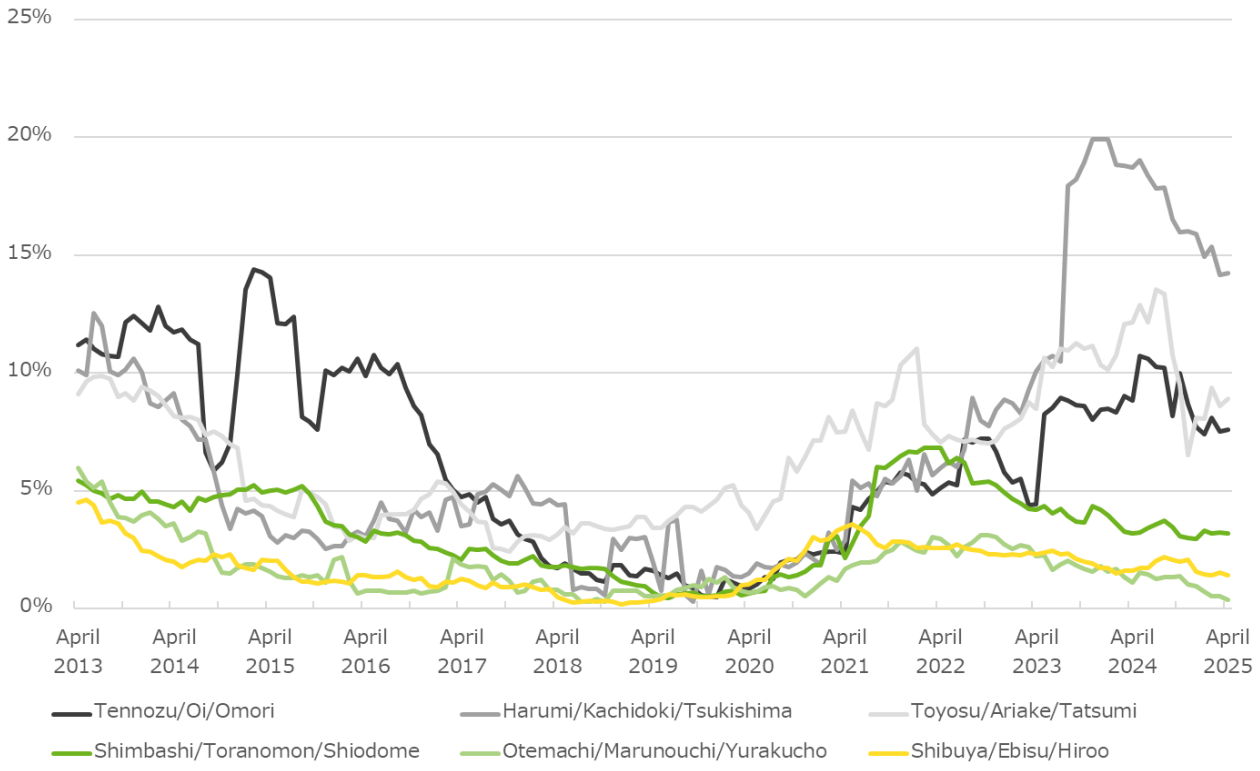
Figure 3: Vacancy Rates in Q1 2020 (Black Dot) and Q1 2025 (Green Dot) by Office Area



In Q1 2020, the disparity in vacancy rates between areas was relatively small, with rates around 3% in some areas but around 1% in most areas. In Q1 2025, however, vacancy rates were around 1% in many areas in central Tokyo, including the Otemachi/Marunouchi/Yurakucho and Uchisaiwaicho/Kasumigaseki/Nagatacho areas. In contrast, areas with extremely high vacancy rates were prominent in the bay area, including Harumi/Kachidoki/Tsukishima (14.2%), Tennozu/Oi/Omori (7.6%), and Toyosu/Ariake/Tatsumi (4.9%).

In this report, we refer to these three areas as the "3 bay areas" and focus on them as areas lagging behind in the decline of vacancy rates. Figure 4 shows the vacancy rate trends in the 3 bay areas and representative office areas before and after the pandemic.

Figure 4: Vacancy Rate by Area

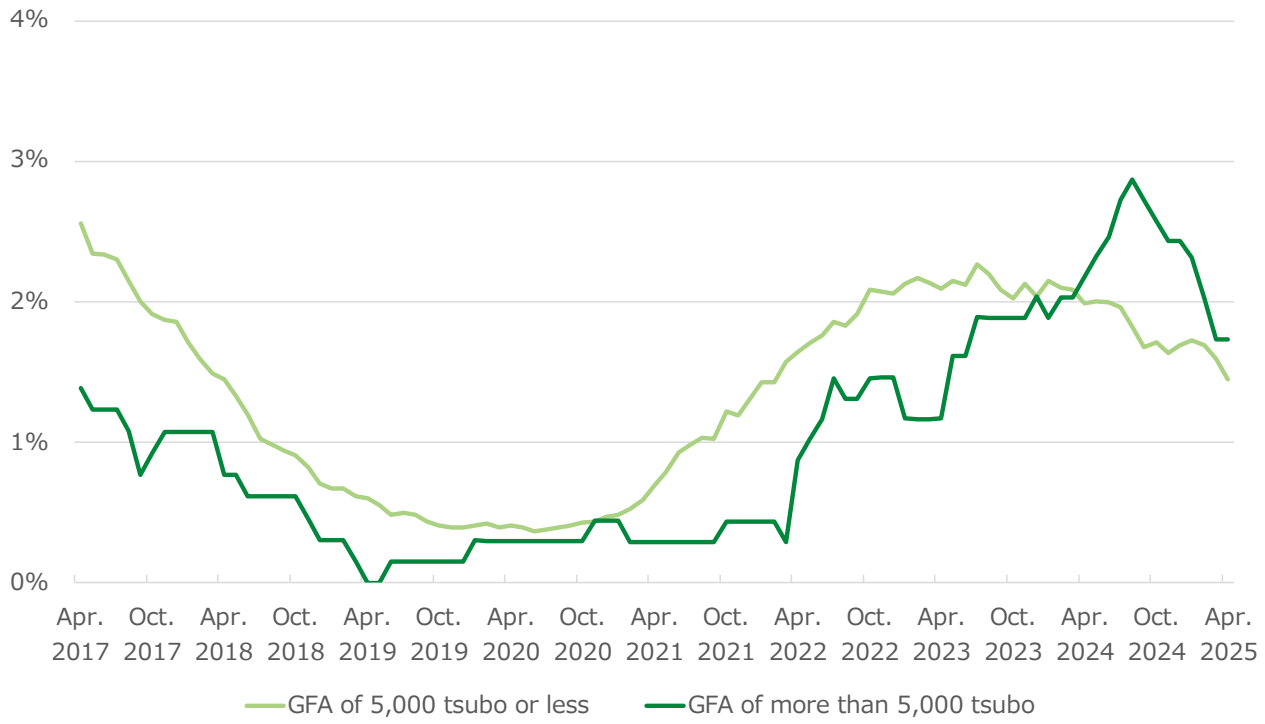


In terms of vacancy rates in representative office areas following the pandemic, the rate peaked in 2021 in the Shibuya/Ebisu/Hiroo area and in 2022 in the Otemachi/Marunouchi/Yurakucho and Shimbashi/Toranomon/Shiodome areas and has since been falling. Vacancy rates in the 3 bay areas peaked later, with the Tennozu/Oi/Omori area peaking at 10.6% in June 2024, the Harumi/Kachidoki/Tsukishima area peaking at 19.9% in January 2024, and the Toyosu/Ariake/Tatsumi area peaking at 13.5% in July 2024. Although the vacancy rates have since begun to fall, the peak levels were higher than in other areas, and the decline began later. The disparity in vacancy rates between areas is even more pronounced than before the pandemic.

3. Growing Number of Long-term Vacant Buildings

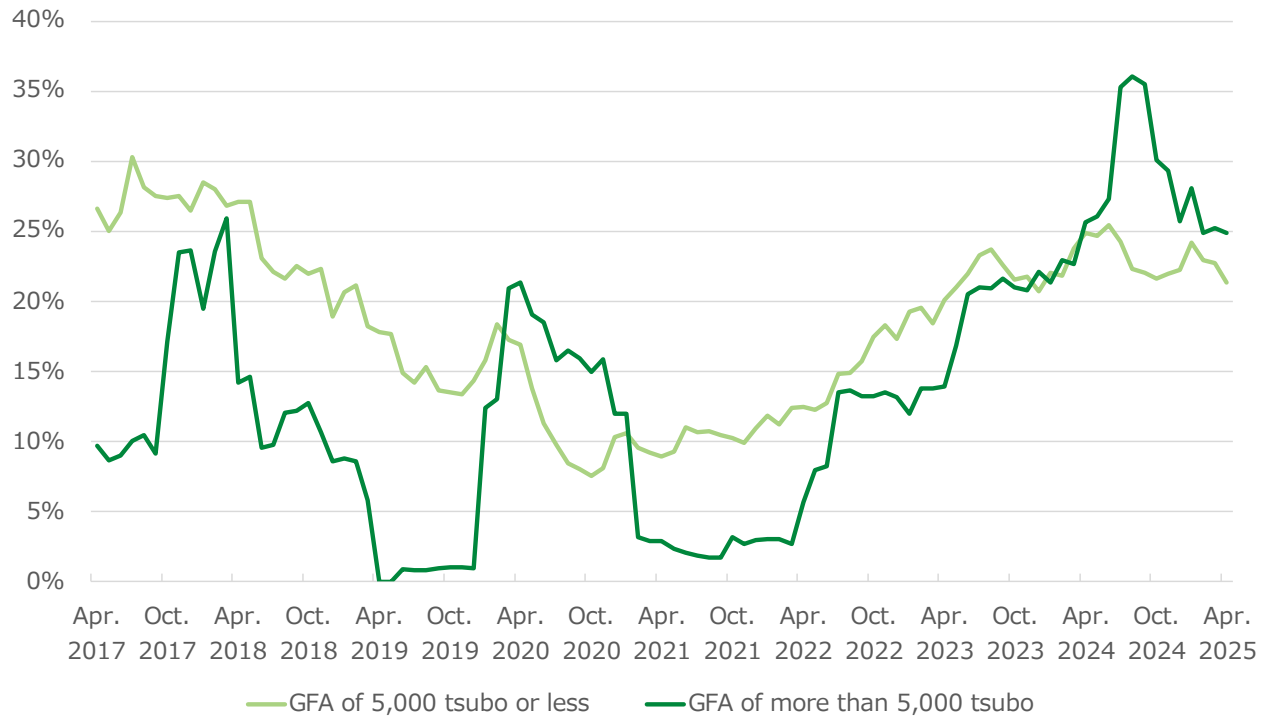
As indicated thus far, although the overall vacancy rate in Tokyo's 23 wards is low and the market is robust, disparities in vacancy rates exist between areas. In Chapter 3, we examine buildings, which are smaller units than areas, considering that there are buildings whose vacancies are not being filled. We define buildings with a vacancy rate exceeding 20% for over 12 months as long-term vacant buildings and examine their characteristics. Figure 5 shows the percentage of long-term vacant buildings (based on number of buildings) among office buildings in Tokyo's 23 wards, categorized by small and medium buildings (gross floor area (GFA) of 5,000 tsubo or less) and large buildings (gross floor area of more than 5,000 tsubo). (1 tsubo = approx. 3.33 sqm)

Figure 5: Percentage of Long-term Vacant Buildings
– In Terms of Number of Buildings; 23 Wards; By Building Size



Until March 2024, the percentage of long-term vacant buildings was higher among small and medium buildings than among large buildings. In particular, the percentage remained below 0.5% among large buildings until March 2022, with only a limited number experiencing difficulty finding tenants and having high long-term vacancy rates. Since April 2022, however, the percentage of long-term vacant buildings among large buildings has risen, reaching a peak of 2.9% in August 2024. Although this percentage has since fallen, dropping to 1.7% as of April 2025, it remains higher than that of small and medium buildings. Figure 6 shows the ratio of vacant floor space in long-term vacant buildings to all vacant floor space in small and medium buildings and large buildings in Tokyo's 23 wards.

Figure 6: Percentage of Vacant Floor Space in Long-term Vacant Buildings – 23 Wards; By Building Size

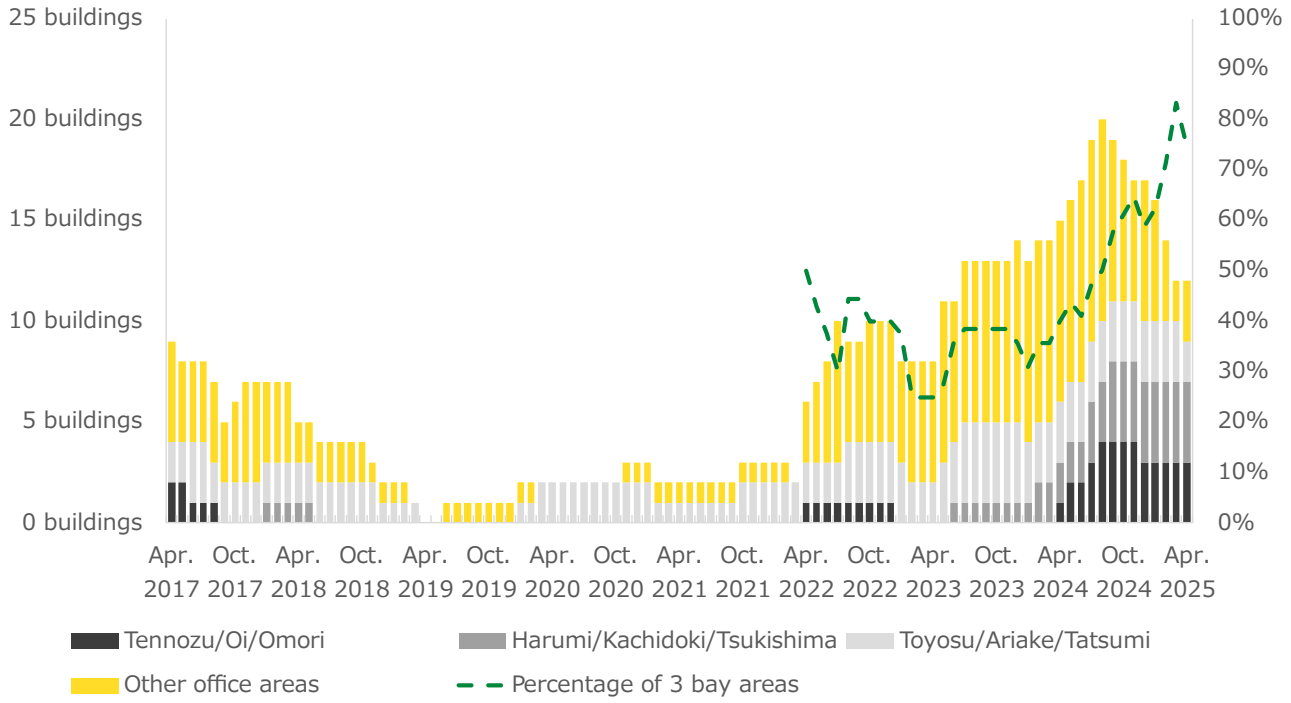


The percentage of long-term vacant buildings in terms of floor space was 21.4% among small and medium buildings and 24.9% among large buildings in April 2025. Combined with the fact that the percentage in terms of the number of buildings was 1.4% and 1.7%, respectively, we can see that buildings accounting for less than 2% of the market for both large and small/medium buildings accounted for more than 20% of the vacant floor space. In particular, although long-term vacant buildings in terms of floor space accounted for more than a third (36.1%) of the entire market for large buildings in August 2024, the percentage was 2.9% in terms of the number of buildings, indicating that a significant amount of vacancies were concentrated in a few buildings.

4.Large Long-term Vacant Buildings Concentrated in 3 Bay Areas

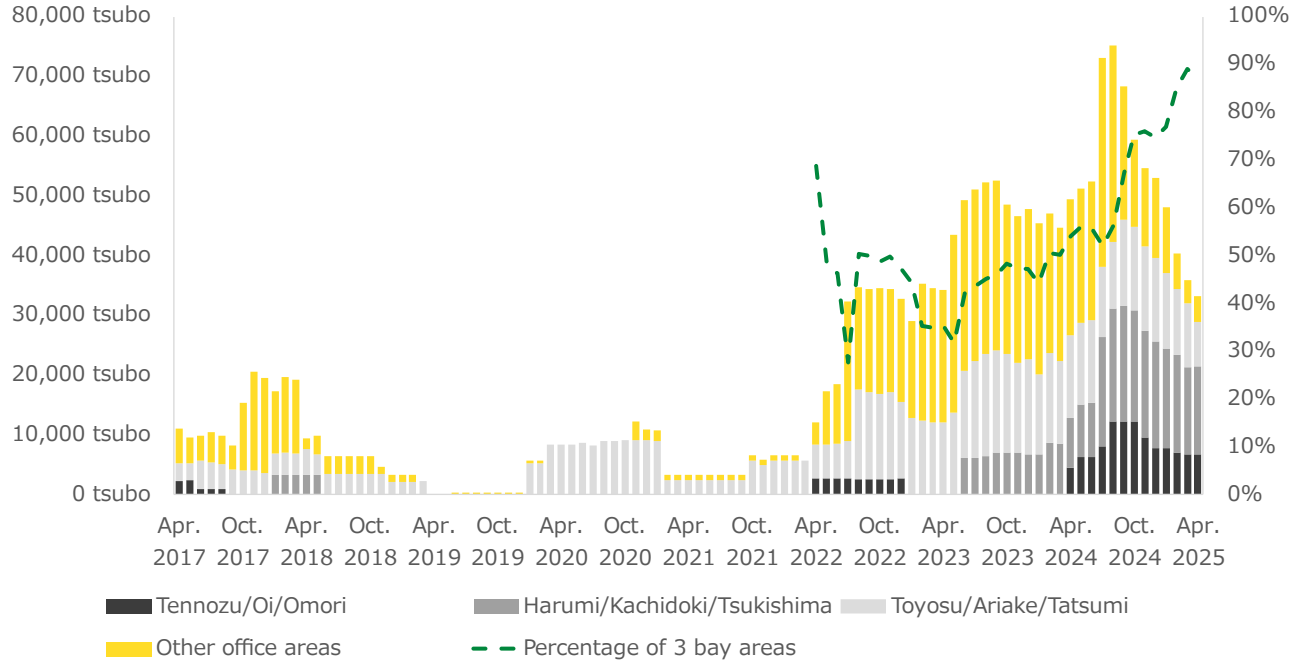
In Chapter 4, we focus on large, long-term vacant buildings and analyze their geographical distribution. Figure 7 shows the trend of the number of such buildings in the 3 bay areas and other office areas within Tokyo's 23 wards, as well as the percentage of these buildings in the 3 bay areas among those in all Tokyo 23 wards since 2022, when the number of long-term vacant buildings began to rise.

Figure 7: Large, Long-term Vacant Buildings – Number of Buildings



The number of large, long-term vacant buildings began increasing in April 2022, peaking at 20 buildings across all 23 wards in August 2024. The number subsequently decreased to 12 by April 2025 due to a fall in the vacancy rates across the entire market. In the 3 bay areas, the number of large, long-term vacant buildings has also been declining, yet their percentage among all 23 wards has increased. As of April 2025, large, long-term vacant buildings in the 3 bay areas accounted for 75% of those in all 23 wards, indicating that large buildings with long-term vacancies were concentrated in the 3 bay areas, despite a robust market. Figure 8 shows the trends in the vacant floor space in large, long-term vacant buildings, as well as the percentage of vacant floor space for these buildings in the 3 bay areas compared to all Tokyo 23 wards.

Figure 8: Large, Long-term Vacant Buildings – Vacant Floor Space



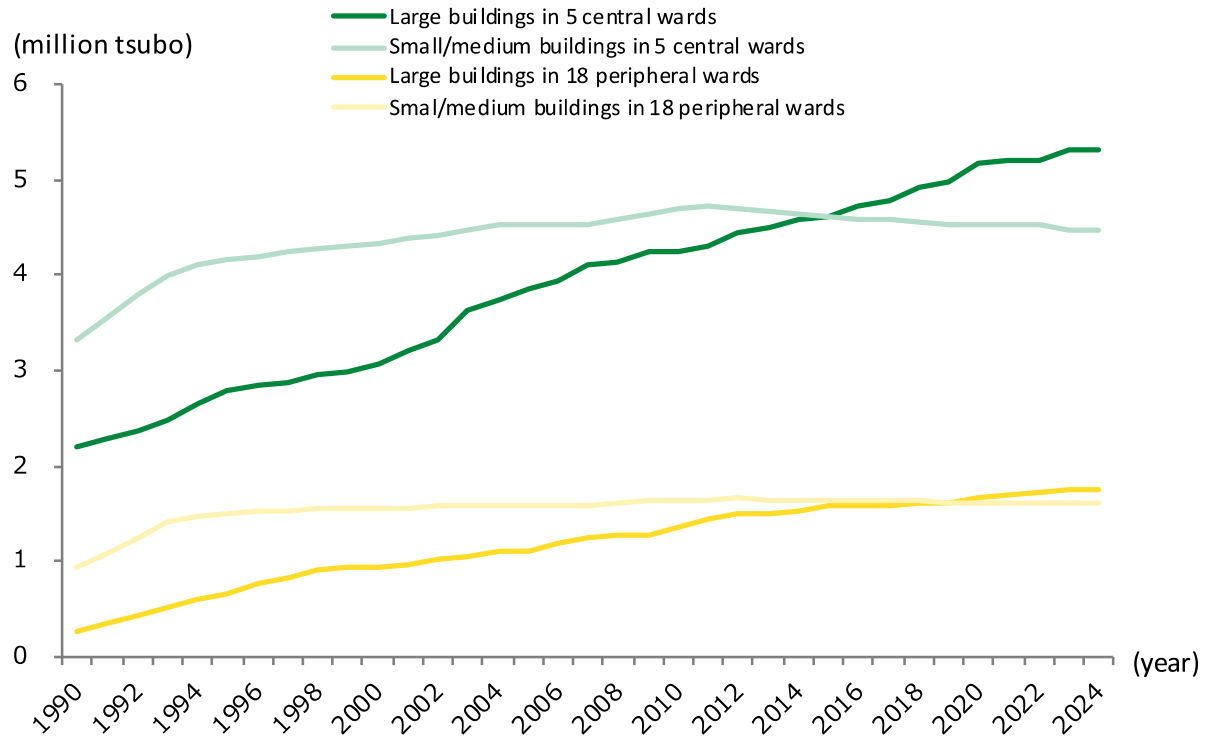
Vacant floor space in long-term vacant buildings has increased since April 2022, peaked in September 2024, and is currently trending downward. However, as with the number of buildings, the decrease in their floor space has primarily occurred in other office areas, with the percentage of the 3 bay areas increasing. Most recently, in April 2025, the 3 bay areas accounted for nearly 90% (86.9%).

As described above, buildings with long-term vacancies, in terms of both the number of buildings and vacant floor space, are concentrated in the 3 bay areas, where filling vacancies has lagged behind other areas. The existence of these buildings has caused the vacancy rates in the 3 bay areas to remain high despite an improving market.

5. Conclusion: Intensified Competition between Large Buildings and Future Outlook

In this report, we outlined that, although the overall office market has been robust, vacancy rates vary by area and that there has been an increase in the number of large, long-term vacant buildings in the 3 bay areas, where the decline in vacancies lags behind other areas. One factor contributing to this is intensified competition due to an increase in large office stock. Figure 9 shows the trend of office stock (in terms of rentable area) by area (5 central wards and 18 peripheral wards) and building size.

Figure 9: Trend of Office Stock – By Building Size and 5 Central Wards/18 Peripheral Wards



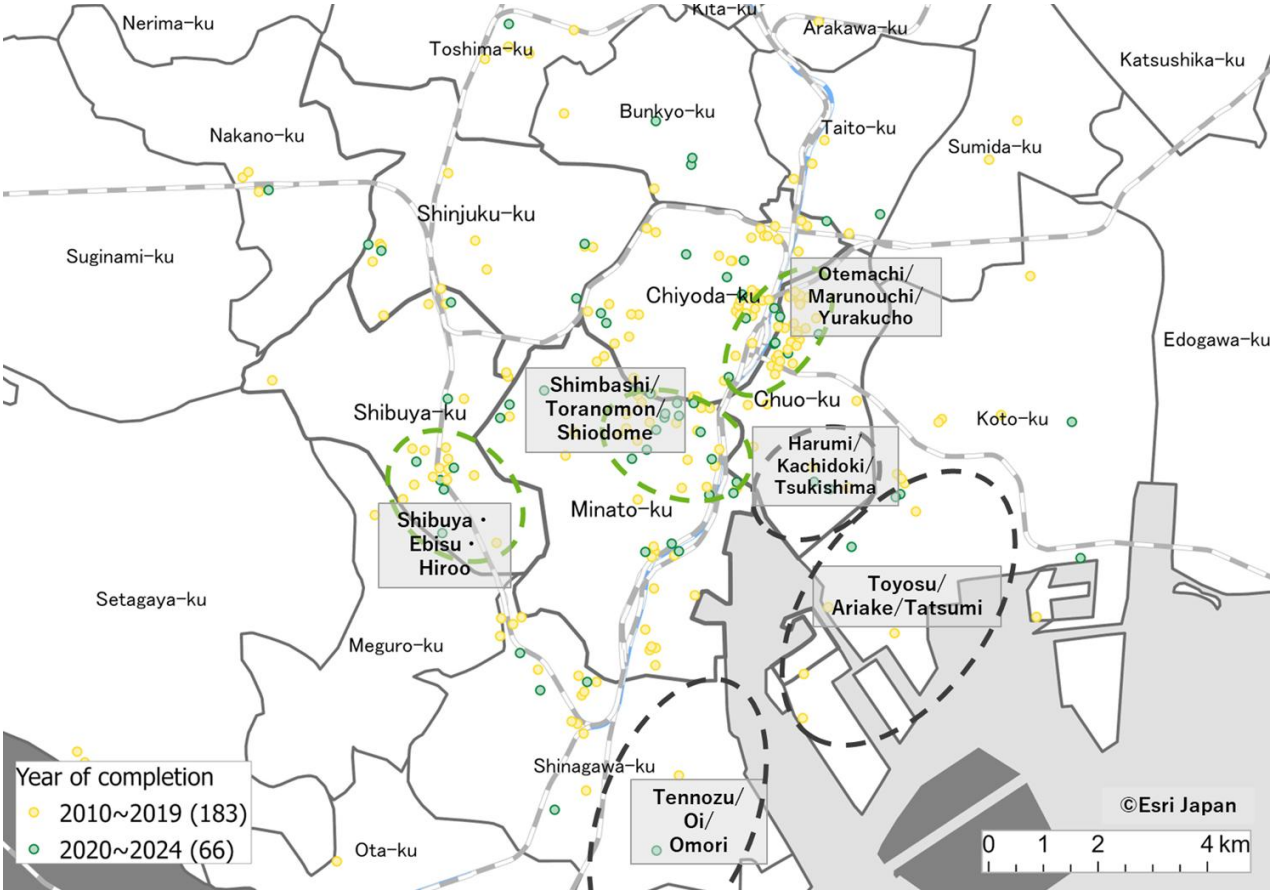
(Office buildings in Tokyo's 23 wards (n=11,141))

Large buildings: GFA of more than 5,000 tsubo　Small/medium buildings: GFA of 5,000 tsubo or less

The large office stock, with a gross floor area of more than 5,000 tsubo, has been expanding mainly in the 5 central wards. Furthermore, the development of more high-performance, feature-rich buildings equipped with additional usages, such as retail facilities, hotels, as well as residences, and common area amenities, such as meeting rooms and relaxation spaces, has become mainstream for many recent large buildings*[1]. Against this backdrop, competition among large buildings has intensified. Combined with moves to reconsider the office size due to the pandemic, mainly at large companies, large buildings that lack appeal beyond meeting the need for large space may have become less competitive.

Figure 10 shows the distribution of large buildings supplied in Tokyo's 23 wards since 2010.

Figure 10: Distribution of New Large Building Supply Since 2010



Since 2010, a large number of large buildings have been supplied in highly competitive locations in central Tokyo, such as the Otemachi/Marunouchi/Yurakucho area and the Shibuya/Ebisu/Hiroo area. This has resulted in an increase in the number of new, large, and well-located buildings on the market. Existing buildings in the 3 bay areas, which are relatively less competitive than such buildings, are more likely to experience long-term vacancies.

However, the 3 bay areas are not sitting idly by, but are making efforts to respond flexibly to changes in market conditions and capture demand, as described below. For example, as vacancy rates fall and securing offices with ample floor space in central Tokyo becomes more challenging, tenant companies are increasingly considering separating their back-office functions from their head office functions and relocating them to a peripheral area or annex. Additionally, due to the recent surge in construction costs, there has been an increase in demand for fully furnished offices, which require less initial cost for interior construction. To meet this demand, buildings in the 3 bay areas are increasingly being refurbished in the common areas to improve satisfaction with working in the office or renovated into fully furnished offices. Another example is renovating into a lab space, assuming it will be used as an R&D facility. In view of these developments, the short-term outlook is that as vacancy rates of the overall market decline, the key to closing the supply-demand gap in the 3 bay areas will be to respond flexibly to the needs of tenant companies.

On the other hand, in the medium to long term, there are concerns about the risk of a chronic supply-demand gap across the market due to the oversupply of offices in central Tokyo. Although office demand

fluctuates significantly over short cycles due to changes in work styles and economic trends, buildings once supplied remain on the market for several decades, which limits flexibility in supply. Even through the market is currently robust, continued new supply will further increase the office stock, which may not be able to respond to future changes in demand, such as due to the impact of AI replacing office workers and a decline in office demand due to a recession. This could result in a large supply-demand gap. In other words, it cannot be ruled out that buildings with chronically high vacancy rates will emerge, even in central Tokyo. The long-term vacant buildings that have appeared in bay areas since the pandemic could foreshadow a future supply-demand gap.

Reference reports:

Deciphering Recent Vacancy Rate Rises (October 1, 2021) (in Japanese)
https://soken.xymax.co.jp/2021/10/01/2110-rise_in_vacancy_rates/

Deciphering Recent Vacancy Rate Rises (2022) (December 5, 2022) (in Japanese)
https://soken.xymax.co.jp/2022/12/05/2212-rise_in_vacancy_rates/

The Future of the Office (May 8, 2023)
https://www.xymax.co.jp/english/assets/pdf/news_research/20230508_2.pdf

Deciphering Changes in the Office Market (July 10, 2024)
https://www.xymax.co.jp/english/assets/pdf/news_research/20240710.pdf

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