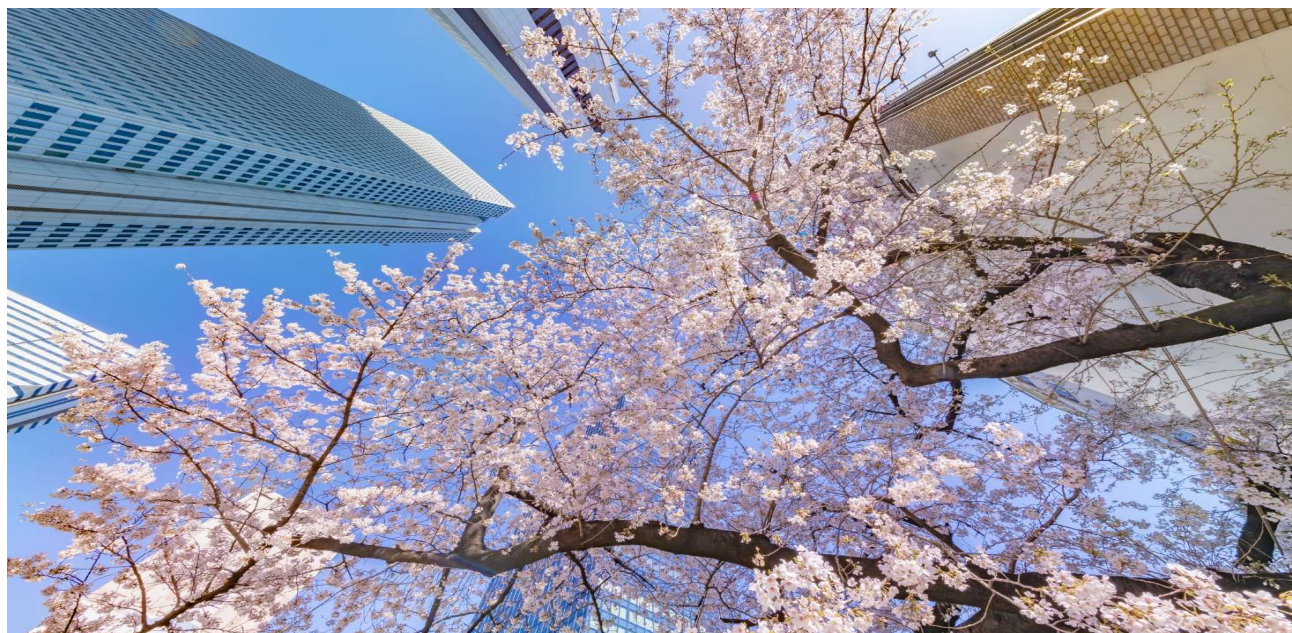


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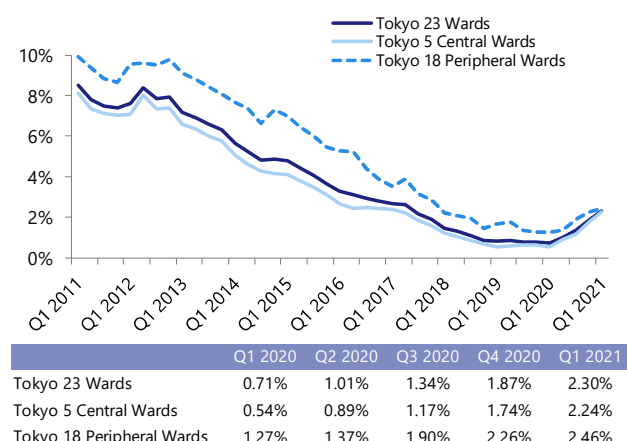
April 28, 2021



Summary

- In Q1 (January–March) 2021, the office market of the 23 wards of Tokyo (“Tokyo 23 Wards”) continued to see weak demand for office space as vacancy rates rose and rent levels dropped.
- The **vacancy rate** was 2.30%, up 0.43 percentage points from the previous quarter. The **availability rate**, which includes space for which a cancellation notice has been given and vacant space currently available (accepting tenant applications), was 5.31%, up 0.89 points from the previous quarter. The **increase and decrease in vacant space** showed that the increase in vacant space outweighed the decrease for the fourth consecutive quarter, as vacant space increased by 164,000 tsubo (1 tsubo = approx. 3.3sqm) and decreased by 116,000 tsubo. The **vacancy turnover ratio**, which is the rate of decrease of vacant office space, rose 4.1 percentage points quarter on quarter to 30.9%.
- The **new contract rent index**, the level of new lease rent, was 90, down 2 points from the previous quarter. The **contract rent diffusion index**, which is the percentage of buildings with a rise in new rent minus that of buildings with a drop in new rent, declined by 7 points from the previous quarter to -29, a negative figure for the second consecutive quarter.
- The **paying rent index**, which includes both new and existing rents, rose 1 point to 105.
- The **average free rent months of lease with free rent** was 1.0 month. The ratio of free rent offered was 50.2%.

Figure 1: Vacancy Rate (by Area)



Vacancy

Figure 1 shows the vacancy rates of Tokyo 23 Wards, the 5 Central Wards (Chuo, Chiyoda, Minato, Shibuya and Shinjuku Wards), and the 18 Peripheral Wards since 2011. The rate in Q1 2021 rose 0.43 points from Q4 2020 to 2.30% in the 23 Wards, 0.5 points to 2.24% in the 5 Central Wards, and 0.2 points to 2.46% in the 18 Peripheral Wards. The vacancy rate rose in all three areas for the fourth consecutive quarter. A possible reason for the rise is that an increasing number of companies reviewed their office floor space as they adopted telework.

The difference in the vacancy rates of the 5 Central Wards and 18 Peripheral Wards is shrinking, resulting in a smaller difference in vacancy rates between areas compared to pre-Covid levels.

Figure 2 is the **vacancy rate** of all sizes of buildings, large buildings (gross floor area (GFA): 5,000 tsubo or more), and small & medium buildings (GFA: 300–4,999 tsubo) in Tokyo 23 Wards since 2011. In Q1 2021, the vacancy rate rose by 0.39 points to 1.78% among large buildings and by 0.47 points to 2.87% among small & medium buildings.

Figure 2: Vacancy Rate (by Building Size)

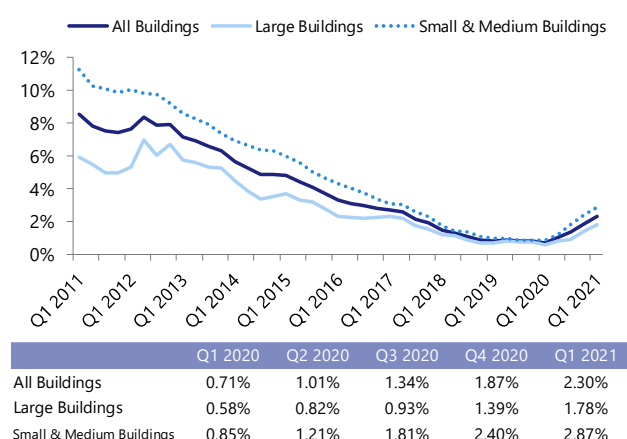


Figure 3 shows the **availability rate** and the **vacancy rate**. The availability rate is the indicator for the sum of currently vacant space, space for which a notice of cancellation has been given and space that is accepting tenant applications (before the previous tenant has left) as the numerator and rentable space as the denominator. The availability rate was 5.31%, up 0.89 percentage points from Q4 2020. The rise was larger than the 0.43-point rise in the vacancy rate. The growing gap between the availability rate and vacancy rate suggests that finding the next tenant during the period from the notice of lease cancellation and vacating of the previous tenant is becoming less frequent.

Figure 3: Availability Rate (23 Wards, All Sizes)

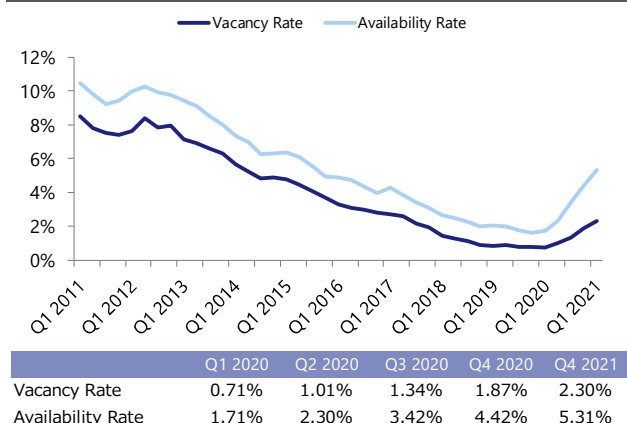


Figure 4: Increase and Decrease in Vacant Space
(23 Wards, All Building Sizes)

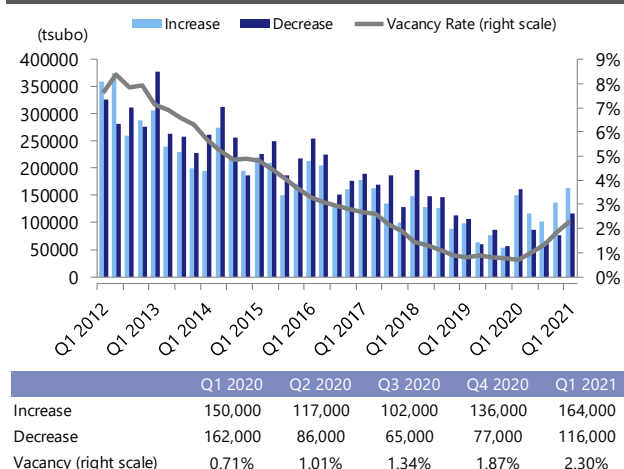


Figure 4 is the **increase and decrease in vacant space**. In Q1 2021, the increase in vacant space was 164,000 tsubo, while the decrease was 116,000 tsubo, the increase exceeding the decrease for the fourth consecutive quarter. Both the increase and decrease in vacant space were larger than in Q4 2020 as companies relocated or cancelled part of their lease contract.

Figure 5: Vacancy Turnover Ratio

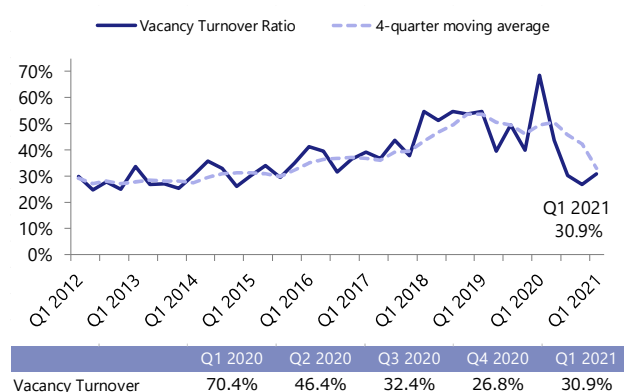
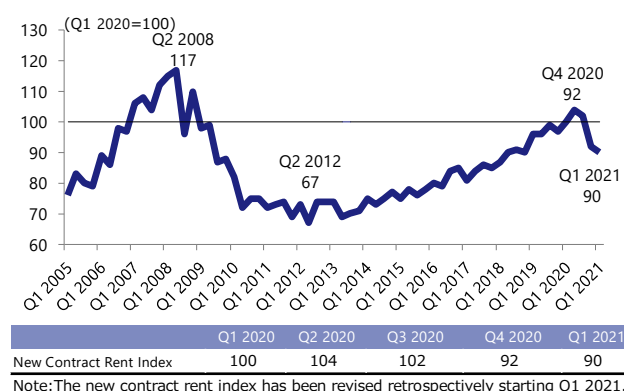


Figure 5 shows the **vacancy turnover ratio**, the ratio of vacant spaces leased to tenants during the quarter to the total vacant office stock (vacant office stock at start of quarter + vacant space added during the quarter). The ratio in Q1 2021 rose by 4.1 points from Q4 2020 to 30.9%. We will monitor future developments carefully.

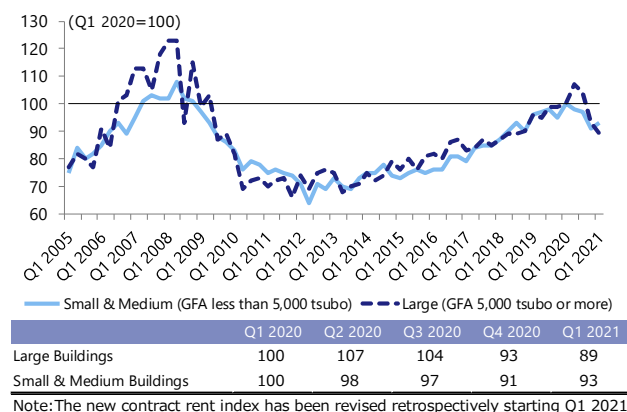
New Contract Rent

Figure 6 is the **new contract rent index**, which is the rent level for new lease contracts.*1 The index for Q1 2021 was 90, down 2 points from Q4 2020 and down 10 points from Q1 2020. The rising trend of new contract rent, which had continued since Q2 2012, peaked in Q2 2020 and has been declining since. The decline is likely due to rent reduction negotiations by lessees as well as lessors reducing their rent when they start looking for tenants as vacancy rates rise and companies increasingly downsize their office.

Figure 6: New Contract Rent Index



*1 We revised the model of the new contract rent index from Q1 2021 and updated the figures retrospectively. For details, see *Revision of New Contract Rent Index (2021)*, released on April 19, 2021
https://soken.xymax.co.jp/2021/04/19/2104-new_contract_rent_index_revise2021/

Figure 7: New Contract Rent Index (by Size)

Note: The new contract rent index has been revised retrospectively starting Q1 2021.

Figure 7 is the new contract rent index **by size of building**. The index for large companies with a GFA of 5,000 tsubo or more dropped 7 points from Q4 2020 to 89, while that for small & medium buildings with a GFA of 300–4,999 tsubo rose by 2 points to 93.

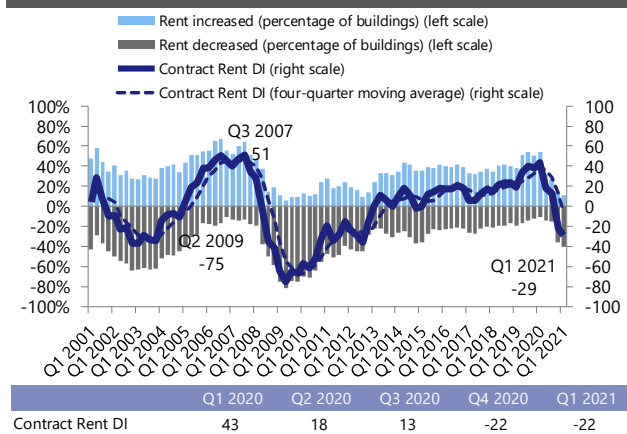
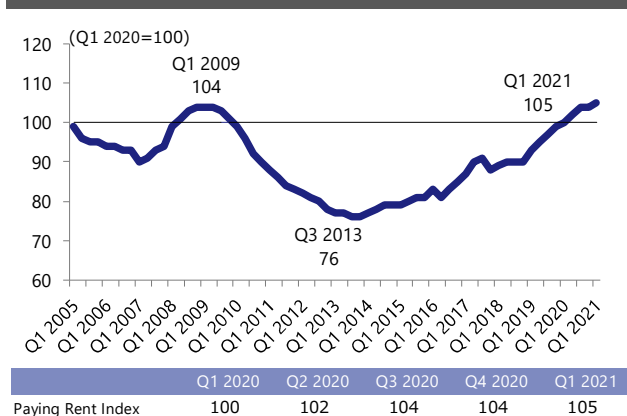
Figure 8: Contract Rent DI

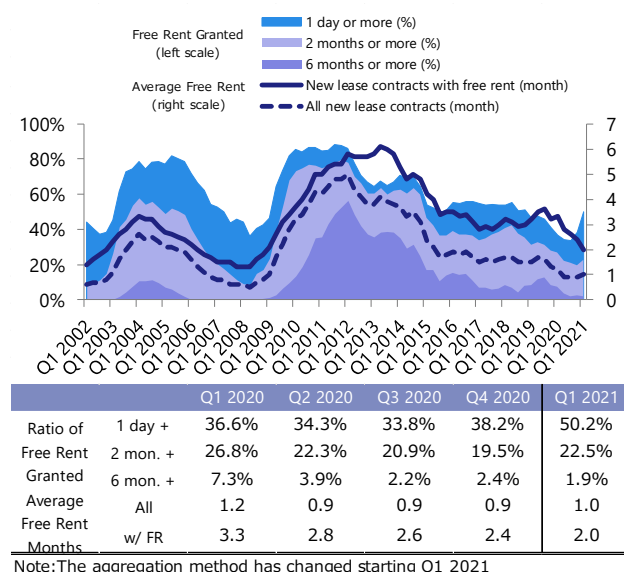
Figure 8 is the **contract rent diffusion index (DI)** (the percentage of buildings with a rent rise minus that of buildings with a rent decline), which indicates the direction of changes in new contract rent. The DI in Q1 2021 was -29, down 7 points from Q4 2020 a negative figure for the second consecutive quarter. A negative DI means there were more buildings with lower new rent than those with higher new rent compared to six months ago.

Figure 9: Paying Rent Index

Paying Rent

Figure 9 shows the **paying rent index**,^{*2} which includes both new lease rents and existing lease rents. The index in Q1 2021 was 105, up 1 point from Q4 2020 but roughly flat since the start of the COVID-19 pandemic. However, future developments must be monitored carefully, since paying rent tend to change more slowly than new contract rent.

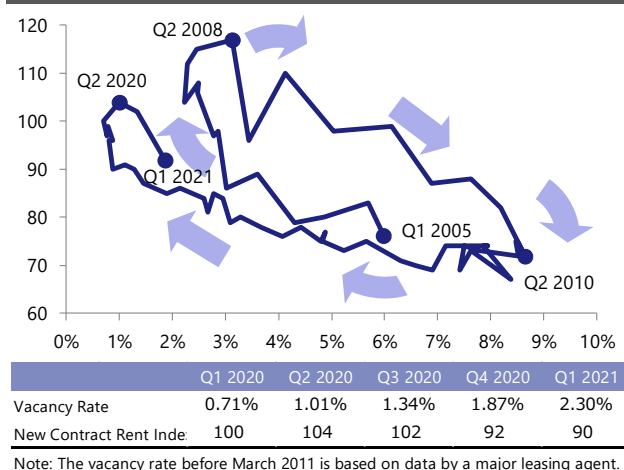
*2 Starting Q1 2021, the base point has been changed from Q1 2010 to Q1 2020.

Figure 10: Free Rent


Free Rent

Figure 10 shows the percentage of new lease contracts with free rent to all new lease contracts (**ratio of free rent offered**) and the average free rent period (**average free rent months**).^{*3} In Q1 2021, the ratio of offering free rent of one day or more was 50.2% and the ratio of offering free rent of six months or more was 1.9%. The average free rent months was 2.0 among lease contracts with free rent and 1.0 months among all new contracts.

*3 The aggregation method has changed starting Q1 2021 (Please refer to the Survey Overview at the end of the report.).

Figure 11: Market Cycle


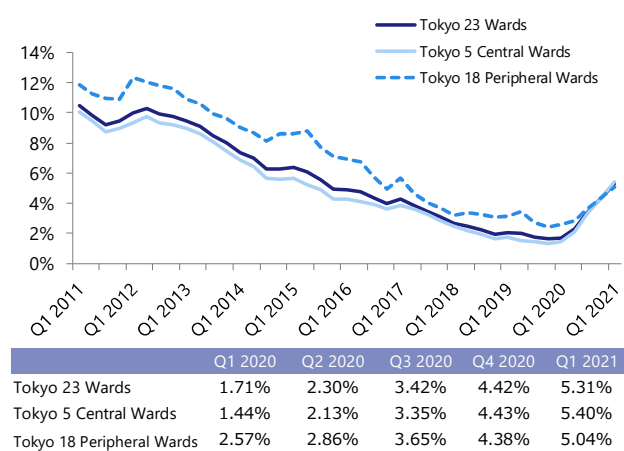
Market Cycle

Figure 11 plots the vacancy rate on the horizontal scale and the new contract rent index on the vertical scale on a quarterly basis. It shows the cyclicity of the market, with the chart trending to the upper left in 2005 (vacancy down, rent up), returning to the lower right in 2008 (vacancy up, rent down) and then trending to the upper left (vacancy down, rent up) in 2010.

Although the office lease market had been in a recovery phase since 2013, the trend seems to have switched in Q2 2020, and the chart trended to the lower right in Q1 2021 as vacancy rates rose and the new contract rent index fell.

TOPIC

Figure 12: Availability Rate (by Area)



Availability Rate by Area and Building Size

As a TOPIC, we will examine the availability rate by area and building size. Figure 12 is the availability rate of Tokyo 23 Wards, the 5 Central Wards, and 18 Peripheral Wards since 2011. The rate rose by 0.97 percentage points to 5.40% in the 5 Central Wards and by 0.66 points to 5.04% in the 18 Peripheral Wards. The availability rate rose for the fifth consecutive quarters regardless of area.

Figure 13: Availability Rate (by Building Size)

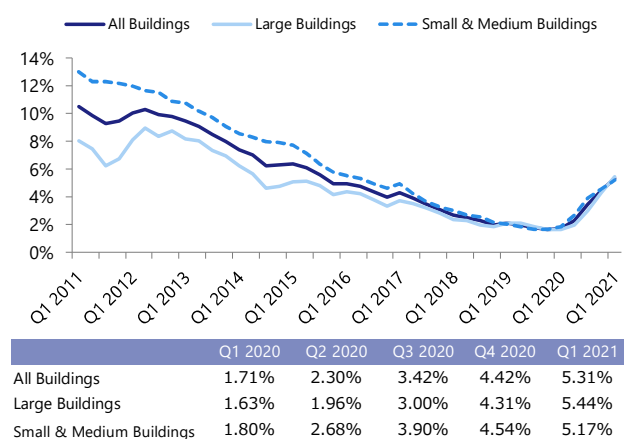


Figure 13 shows the availability rate of all sizes of buildings, large buildings (GFA: 5,000 tsubo or more), and small & medium buildings (GFA: 300–4,999 tsubo) in Tokyo 23 Wards since 2011. In Q1 2021, the rate rose by 1.13 points to 5.44% for large buildings and by 0.63 points to 5.17% for small & medium buildings. The rate for large buildings was larger than that for all sizes of buildings and small & medium buildings.

Reference

Figure 14: Major Building Completions (Q1 2021)

Name	Floors Above ground/ Below ground	Ward	Address	Completion	Total floor area (tsubo)
Sumitomo Fudosan Ochanomizu Building	12/1	Bunkyo	2-2-3 Sotokanda	Jan 2021	3,870
REVZO Nihonbashi Horidomecho	12	Chuo	1-10-13 Nihonbashihoridomecho	Feb 2021	1,979
World Trade Center Building Minamikan	39/3	Minato	2-4-1 Hamamatsucho	Mar 2021	43,863
Sumitomo Fudosan Tamachi Building Higashikan	8	Minato	3-16-18 Shibaura	Mar 2021	3,875

Source: Compiled by Xymax Real Estate Institute based on information released by companies

Figure 15: Major Office Relocations (Q1 2021)

Company	From	To	Timing	Purpose	Size (tsubo)
Remixpoint, inc.	Sumitomo Fudosan Roppongi Grand Tower <i>Minato City</i>	Sumitomo Shintoranomon Bldg. <i>Minato Ward</i>	Aug 2021	Work style reform	270
Toyokumo, Inc.	A-PLACE Gotanda <i>Shinagawa Ward</i>	JR Tokyumeguro Bldg. <i>Minato Ward</i>	Sep 2021	Greater efficiency	320
COLOPL, Inc.	Yebisu Garden Place Tower <i>Shibuya Ward</i>	Midtown East <i>Minato Ward</i>	Feb 2022	Greater efficiency	2,240

Source: Compiled by Xymax Real Estate Institute based on information released by companies.

The sizes of offices are estimates.

Survey Overview				
	Vacancy Rate	Increase and Decrease in Vacant Space	Vacancy Turnover Ratio	New Contract Rent Index
Description	Vacant space and available space versus total office stock in the market.	A quarterly increase and a quarterly decrease in volume of vacant space in the market.	The ratio of the vacant space leased during the quarter to all the vacant office stock in the market.	Office rent index based on new contract rents. This index uses a statistical method to remove property-specific influences such as size and age of buildings.
Main Point	Supply and demand balance in the market	Supply and demand balance in the market	Supply and demand balance in the market	Level of contract rents
Sector	Office Building			
Market	Tokyo 23 Wards			
Building Size	GFA 300 tsubo or more	GFA 300 tsubo or more	GFA 300 tsubo or more	GFA 300 tsubo or more
Release	Every Quarter			
Data Source	Data of available vacant spaces and buildings. Independently collected by Xymax.	Data of available vacant spaces and buildings. Independently collected by Xymax.	Data of available vacant spaces and buildings. Independently collected by Xymax.	Data of new contract rents including CAM charge. Independently collected by Xymax.
Data Used in Recent Quarter	8,619 buildings	9,152 contracts	9,152 contracts	324 contracts
How to Calculate	<ul style="list-style-type: none"> • Vacancy rate = vacant space ÷ rentable space • Vacant Space Total available vacant space in completed buildings as of the time of the research. • Rentable Space Rentable space of completed buildings as of the time of the research. • Availability rate = available space ÷ rentable space • Available space Total available space, which consist of vacant space and space for which notice of cancellation has been given. Where rentable space is not available, the rentable space is estimated from the gross floor area of the building using the formula developed in the joint study with the laboratory of Professor Naoki Kato at Kyoto University Graduate School of Engineering. 	<ul style="list-style-type: none"> • Increase in volume of vacant space <ul style="list-style-type: none"> a. Space in existing buildings formerly occupied by tenants b. Total rentable area of new completions • Decrease in volume of vacant space <ul style="list-style-type: none"> a. Space in existing buildings leased under a new agreement b. Space in new completions but lease is signed prior to the completion c. Space that had been vacant but the owner decided not to lease Where rentable space is not available, the rentable space is estimated from the gross floor area of the building using the formula developed in the joint study with the laboratory of Professor Naoki Kato at Kyoto University Graduate School of Engineering. 	<ul style="list-style-type: none"> • Vacancy Turnover Ratio = Volume of vacant space leased during the quarter ÷ (Initial vacancy + Vacancy added during the quarter) Then, compute the four-quarter moving average amount with the ratio derived from this formula. • Volume of vacant space leased during the quarter: Same as the "decrease in volume of vacant space". • Initial vacancy: Total volume of completed buildings that are available for lease as of the start of the quarter. • Vacancy added during the quarter: Same as the "increase in volume of vacant space" 	<ol style="list-style-type: none"> 1) Develop a rolling hedonic model (overlapping period: five quarters) based on the collected new contract data with property-specific factors as variables (location, building size, building age, facilities, date of signing of lease, etc.). 2) Estimate the quarterly contract rent by assigning the values of a typical building to the model developed in the preceding step. 3) Calculate the rent estimated in the preceding step based on Q1 2020 as the base point (=100) by market segment (four segments). 4) Integrate the figure of the preceding step as a Fisher index using gross floor area as weight. The New Contract Rent Index of the Tokyo office market is the integrated figure. <p>This model shows changes in new contract rents after removing property-specific variables.</p>

Survey Overview			
	Contract Rent DI	Paying Rent Index	Free Rent Granted (%) & Average Free Rent (Month)
Description	Index of changes in new contract rents. Calculated by counting and comparing the buildings where rent has increased and those where rent has decreased.	Index of changes in paying rents (new and existing contract rents).	Distribution of free rent and average length of free rent period. Free rent is the time lag between the start of the contract and the start of the rent payment.
Main Point	Direction of contract rent trends	Level of rents paid by tenants	Market trends that are not reflected in contract rents
Sector	Office Building		
Market	Tokyo 23 Wards		
Building Size	All	GFA 300 tsubo or more	All
Release	Every Quarter		
Data Source	Data of new contract rents including CAM charge. Independently collected by Xymax.	Data of new and existing contracts signed for buildings under management by Xymax.	Data of new contracts signed for buildings under management by Xymax.
Data Used in Recent Quarter	397 contracts	4,157 contracts	72 contracts
How to Calculate	<ol style="list-style-type: none"> 1) Compare the data of new contract rent per tsubo with that in the 6-month prior period in the same building. Each contract was counted separately into three categories: "rent increase", "no change" or "rent decrease" 2) Calculate the percentage of buildings with "rent decrease" and buildings with "rent increase". 3) Subtract the percentage of buildings with "rent decrease" from the percentage of buildings with "rent increase". This outcome is the Contract Rent Diffusion Index (DI). 	<ol style="list-style-type: none"> 1) Calculate the rent per tsubo of each tenant from the data of new and existing lease contracts and memorandums. 2) Develop a rolling hedonic model (overlapping period: five quarters) based on the rents calculated in the preceding step (the "paying rent") with property-specific factors as variables (location, building size, building age, facilities, date of signing of lease, etc.). 3) Estimate a quarterly contract rent by assigning the values of a typical building to the model developed in the preceding step. 4) The Paying Rent Index is the rent estimated in the preceding step based on Q1 2010 as the base point (=100). <p>With this method, influences from replacement of sample data and deterioration of buildings over age are removed from the result.</p>	<ul style="list-style-type: none"> • Free Rent Period (Until Q4 2020) The period between the start of the contract and the start of the rent, shown in number of days. (Q1 2021 onward) The period for new contracts (excl. contracts for expansion within building and recontracts) during which rent has continuously been reduced to an amount equivalent or close to CAM charges since the date of contract. • Ratio of Free Rent Granted The ratio of contracts with free rent in all the new contracts (excl. contracts for expansion within the building and recontracts) • Average Free Rent (Month) of All the Contracts The simple average of the free rent period including lease contracts with no free rent period. • Average Free Rent (Month) of Contracts with Free Rent The simple average of the free rent period of lease contracts with a free rent period

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Appendix: Xymax REI Research Updates (Feb. 2021 – Apr. 2021)

Flexible Office Market Survey 2021 **February 17, 2021** **(Japanese only)**

- This report presents the results of an aggregation of quantitative data of flexible offices, such as the number, area size and number of operators of flexible offices in Tokyo 23 Wards.

Greater Tokyo Company Survey on Work Styles and the Workplace | January 2021 **March 10, 2021** **(Japanese only)**

- This report presents the results of a questionnaire survey of companies in Greater Tokyo on the current state, issues and measures of work styles during the COVID-19 pandemic.

Workplace Strategy as a Managerial Issue **March 22, 2021**

- Of the latest January 2021 survey results, this report mainly focuses on frontrunner companies that recognize the importance of workplace strategies and summarizes what kind of work styles they currently adopt and how they will develop their overall workplace strategy going forward, including their main office and telework policies.

Revision of New Contract Rent Index (2021) **April 19, 2021** **(Japanese only)**

- This report summarizes the key points of the revisions to the new contract rent index.

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