

# Office Market Report

Tokyo | Q4 2021

January 26, 2022



## Summary

- In Q4 (October–December) 2021, the office market of the 23 wards of Tokyo (“Tokyo 23 Wards”) showed a departure from the previous trend as vacancy rates rose more mildly and rent levels grew marginally.
- The **vacancy rate** was 3.58%, up 0.17 pp from Q3. The **availability rate**, which includes space for which a cancellation notice has been given and vacant space currently available (i.e., accepting tenant applications), was 5.80%, down 0.11 pp from Q3. The **increase and decrease in vacant space** showed that the increase outweighed the decrease for the seventh consecutive quarter, as vacant space increased by 162,000 tsubo (1 tsubo = approx. 3.3 sqm) and decreased by 146,000 tsubo. The **vacancy turnover ratio**, which is the ratio of vacant spaces leased to tenants, dropped 0.6 pp from Q3 to 26.5%.
- The **new contract rent index**, i.e., the level of new lease rent, was 88, up 2 points from Q3. 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, was unchanged at -31, a negative value for the fifth consecutive quarter.
- The **paying rent index**, which includes both new and existing rents, dropped 3 points to 100.
- The **average number of free rent months** among all new lease contracts was 2.1 months. The **ratio of free rent offered** was 72.8%.

**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 Q4 2021 was +0.17 pp from Q3 at 3.58% in the 23 Wards, +0.16 pp at 3.57% in the 5 Central Wards and +0.20 pp at 3.60% in the 18 Peripheral Wards. The rate rose in all three areas for the seventh consecutive quarter. The gap between the rates of the 5 Central Wards and the 18 Peripheral Wards has narrowed to nearly zero, as was in Q3. While the vacancy rate rose slightly from Q3, the degree of the rise was milder, warranting the need to monitor future movements carefully.

**Figure 2: Vacancy Rate (by Size)**

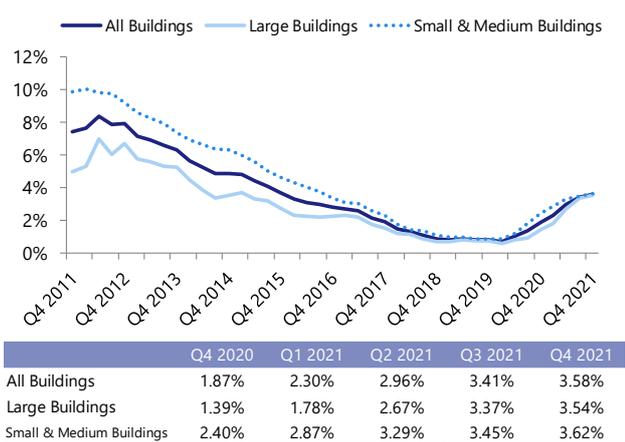


Figure 2 shows the **vacancy rates** of all sizes of buildings, large buildings (gross floor area (GFA): 5,000 tsubo or more) and small & medium buildings (GFA: 300–4,999 tsubo) in Tokyo 23 Wards since 2011. In Q4 2021, the vacancy rate rose by 0.17 pp to 3.54% among large buildings and by 0.17 pp to 3.62% among small & medium buildings.

**Figure 3: Vacancy Rate & Availability Rate**

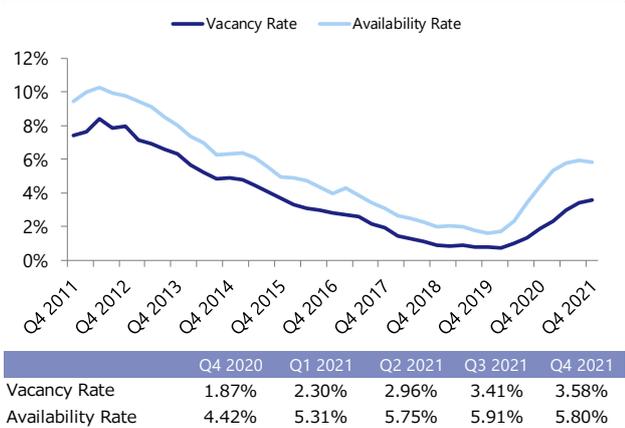


Figure 3 shows the trend of the **availability rate** and the **vacancy rate**. The availability rate is the sum of currently vacant space, space for which a cancellation notice has been given and space that is accepting tenant applications (before the previous tenant has left) as the numerator and rentable space as denominator. The rate in Q4 2021 dropped 0.11 pp from Q3 to 5.80%. The background to the rising vacancy rate and the declining availability rate includes a drop in lease cancellations and a reduction in the time from when a cancellation notice is given by the tenant to finding the next tenant.

**Figure 4: Increase and Decrease in Vacancies (23 Wards, All Sizes)**



Figure 4 is the **increase and decrease in vacant space**. In Q4 2021, the increase in vacant space was 162,000 tsubo, while the decrease was 146,000 tsubo. The increase exceeded the decrease for the seventh consecutive quarter. In Q4, the increase in vacant space was smaller than in Q3, since there was less office space completed in Q4 compared to Q3. However, the decrease in vacant space nearly doubled on a year-on-year basis. There are cases where companies have relocated as a result of a repositioning of their head offices in view of the end of the COVID-19 pandemic, giving momentum to office relocation, which had been sluggish due to the pandemic.

**Figure 5: Vacancy Turnover Ratio (4-quarter moving average)**

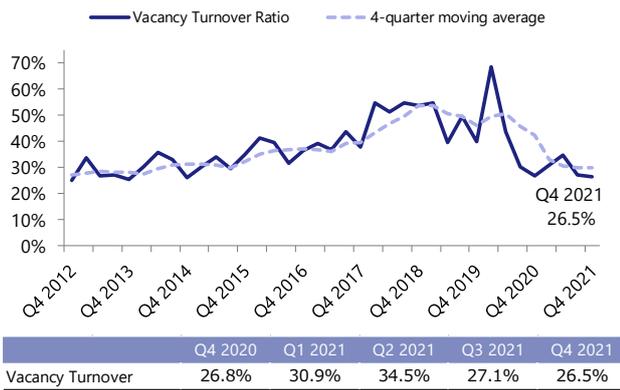


Figure 5 shows the **vacancy turnover ratio**, the ratio of vacant spaces leased to tenants during the quarter to the total vacant office stock (vacant office stock at start of quarter + vacant space added during the quarter). The ratio in Q4 2021 remained low at 26.5%, although the decline from Q3 was small at 0.6 pp.

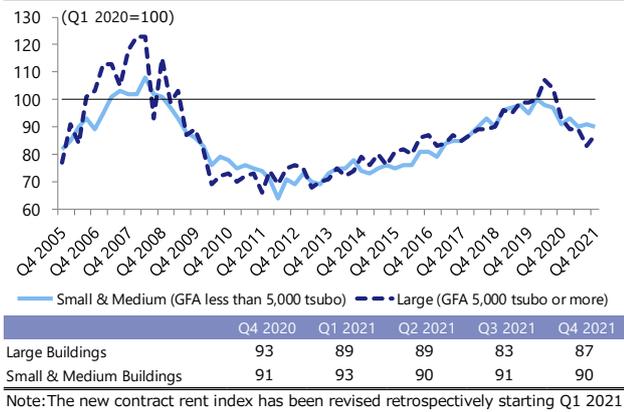
**Figure 6: New Contract Rent Index**



### New Contract Rent

Figure 6 is the **new contract rent index**, which indicates the rent level for new lease contracts. The index for Q4 2021 was 88, up 2 points from Q3 2021 and down 4 points from Q4 2020. Although this is the first rise in six quarters, the rise is small, and the index is still lower on an annual basis. It is too early to deem that rent levels have begun to rise, since there are still many cases where the lessor indicates lower rent to fill vacancies, the contract rent diffusion index is in negative territory, and free rents are increasing.

**Figure 7: New Contract Rent Index (by Size)**



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

Figure 7 shows the new contract rent index **by size of building**. The index for large companies with a GFA of 5,000 tsubo or more was up 4 points from Q3 at 87, while that for small & medium buildings with a GFA of 300–4,999 tsubo was down 1 point at 90.

**Figure 8: Contract Rent DI**

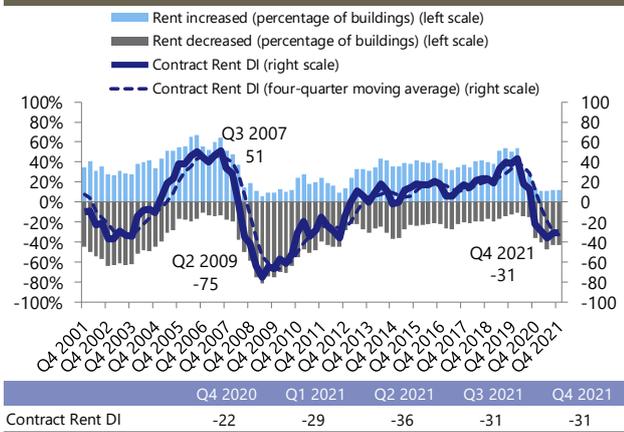
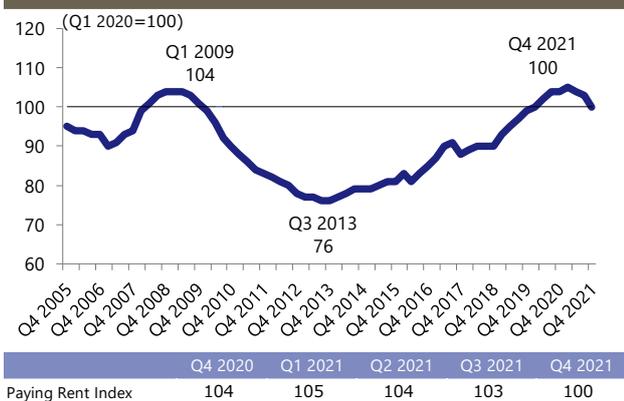


Figure 8 is the **contract rent diffusion index (DI)** (the percentage of buildings with a rent rise minus that of buildings with a rent decline), which indicates the direction of change in new contract rent. The DI in Q4 2021 was -31, unchanged from Q3 and in negative territory for the fifth consecutive quarter. A negative DI means there were more buildings with lower new rent than those with higher new rent compared to six months ago.

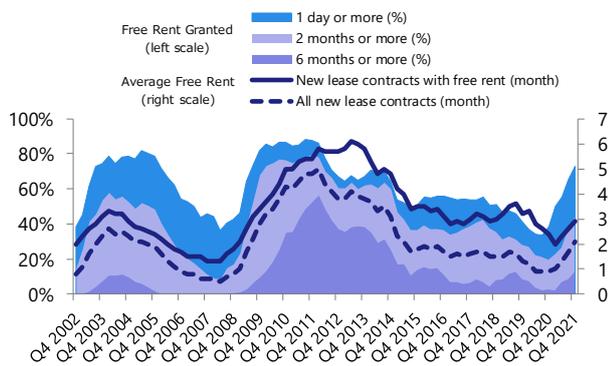
**Figure 9: Paying Rent Index**



### Paying Rent

Figure 9 shows the **paying rent index**, which includes both new lease rents and existing lease rents. The index lags new contract rent. The index in Q4 2021 dropped 3 points from Q3 to 100 due to cuts in existing rent at the renewal of lease and the recent drop in new rent.

**Figure 10: Free Rent**



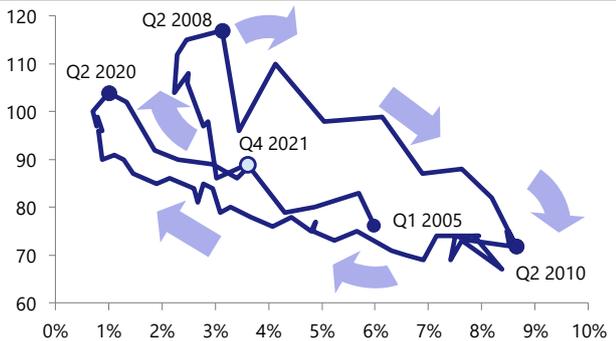
		Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Ratio of Free Rent Granted	1 day +	38.2%	50.2%	55.5%	65.3%	72.8%
	2 mon. +	19.5%	22.5%	26.4%	36.9%	44.1%
	6 mon. +	2.4%	1.9%	6.6%	8.4%	12.9%
Average Free Rent Months	All w/ FR	0.9	2.0	2.3	2.6	2.9
	All new lease contracts		2.0	2.3	2.6	2.9

Note: The aggregation method has changed starting Q1 2021

### Free Rent

Figure 10 shows the percentage of new lease contracts with free rent (FR) to all new lease contracts (**ratio of FR offered**) and the average free rent period (**average FR months**). In Q4 2021, the ratio of offering FR for one day or more was 72.8%, while that for six months or more was 12.9%. The average number of FR months was 2.9 among lease contract with FR and 2.1 among all new contracts. Both the ratio of FR offered and the average FR months have risen, suggesting that more companies have been trying to attract tenants by offering free rent due to a sense of urgency from the rise in the vacancy rate.

**Figure 11: Market Cycle**



	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Vacancy Rate	1.87%	2.30%	2.96%	3.41%	3.58%
New Contract Rent Inde	92	90	89	86	88

Note: The vacancy rate before March 2011 is based on data by a major leasing agent.

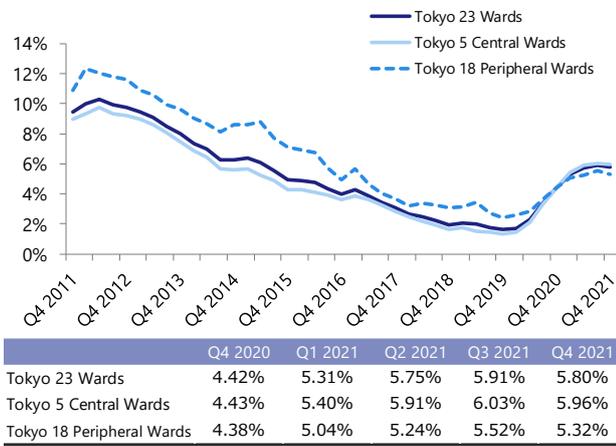
### Market Cycle

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 (vacancy down, rent up) from 2005, moving to the lower right (vacancy up, rent down) in and after 2008 and returning to the upper left (vacancy down, rent up) in 2010.

The trend of the office lease market, which had been in a recovery phase since 2013, seems to have changed in Q2 2020. The chart trended to the upper right in Q4 2021, as both the vacancy rate and new contract rent index rose.

**TOPIC**

**Figure 12 : Availability Rate (by Area)**



**Availability Rate by Area and Building Size**

As the TOPIC, we have examined the availability rate by area and building size. Figure 12 shows the **availability rate** of Tokyo 23 Wards, the 5 Central Wards and the 18 Peripheral Wards since 2011. The rate in Q4 2021 dropped by 0.07 pp to 5.96% in the 5 Central Wards and by 0.20 pp to 5.32% in the 18 Peripheral Wards. The availability rate declined irrespective of area.

**Figure 13 : Availability Rate (by Size)**

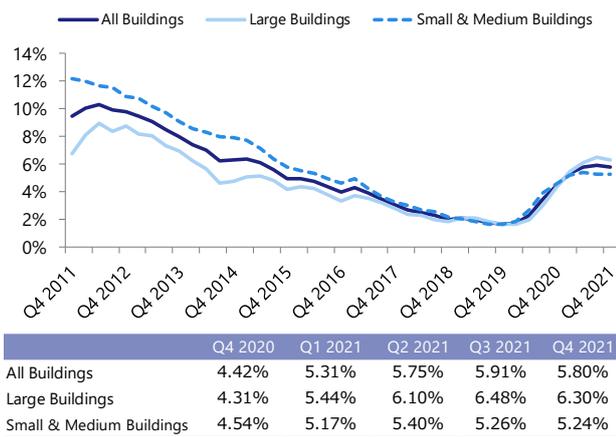


Figure 13 shows the **availability rate** in all sizes of buildings, large buildings (GFA: 5,000 tsubo or more) and small & medium buildings (GFA: 300–4,900 tsubo) in Tokyo 23 Wards since 2011. In Q4 2021, the rate dropped by 0.18 pp to 6.30% in large buildings and by 0.02 pp to 5.24% in small & medium buildings.

## Reference

### Figure 14: Major Building Completions (Q4 2021)

Name	Floors Above ground/ Below ground	Ward	Address	Completion	Total floor area (tsubo)
RBM Ginza Building	11/1	Chuo	7-4-15 Ginza	Nov 2021	809
NIHOMBASHI 3-CHOME SQUARE	12/1	Chuo	3-9-1 Nihombashi	Des 2021	4,278

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

### Figure 15: Major Office Relocations (Q4 2021)

Company	From	To	Timing	Purpose	Size (tsubo)
"K" LINE LOGISTICS, LTD.	KLL Nihombashi Bldg <i>Chuo Ward</i>	Harumi Island Triton Square <i>Chiyoda Ward</i>	Jan 2022	Aggregation	592
MEDIA SEEK INC.	Daiwa Azabu Terrace <i>Minato Ward</i>	Shirokanetakanawa Station Bldg <i>Minato Ward</i>	Jan 2022	Greater efficiency	87
Kairos Marketing Inc.	Minamishinjuku JEBL <i>Shibuya Ward</i>	Sumitomo Harajuku Bldg <i>Shibuya Ward</i>	Apr 2022	Business expansion	200
LIXIL Corporation	WING Bldg <i>Koto Ward</i>	Sumitomo Osaki Garden Tower <i>Shinagawa Ward</i>	Aug 2022	Work style reform	2,008
TOKYO ROPE MFG. CO., LTD.	Nihombashi Front <i>Chuo Ward</i>	Shibusawa Cityplace Eitai <i>Koto Ward</i>	Aug 2022	Greater efficiency	500
TECHMATRIX CORPORATION	Kokusaikougyoumita No.2 Building <i>Minato Ward</i>	Shinagawa Season Terrace <i>Minato Ward</i>	Des 2022	Aggregation	1,500

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	8,692 buildings	12,043 contracts	12,043 contracts	673 contracts
How to Calculate	<ul style="list-style-type: none"> <li>• Vacancy rate = vacant space ÷ rentable space</li> <li>• Vacant Space Total available vacant space in completed buildings as of the time of the research.</li> <li>• Rentable Space Rentable space of completed buildings as of the time of the research.</li> <li>• Availability rate = available space ÷ rentable space</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in volume of vacant space                             <ol style="list-style-type: none"> <li>a. Space in existing buildings formerly occupied by tenants</li> <li>b. Total rentable area of new completions</li> </ol> </li> <li>• Decrease in volume of vacant space                             <ol style="list-style-type: none"> <li>a. Space in existing buildings leased under a new agreement</li> <li>b. Space in new completions but lease is signed prior to the completion</li> <li>c. Space that had been vacant but the owner decided not to lease</li> </ol> </li> </ul> <p>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.</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Volume of vacant space leased during the quarter: Same as the "decrease in volume of vacant space).</li> <li>• Initial vacancy: Total volume of completed buildings that are available for lease as of the start of the quarter.</li> <li>• Vacancy added during the quarter: Same as the "increase in volume of vacant space"</li> </ul>	<ol style="list-style-type: none"> <li>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.).</li> <li>2) Estimate the quarterly contract rent by assigning the values of a typical building to the model developed in the preceding step.</li> <li>3) Calculate the rent estimated in the preceding step based on Q1 2020 as the base point (=100) by market segment (four segments).</li> <li>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.</li> </ol> <p>This model shows changes in new contractrents after removing property-specificvariables.</p>

	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	496 contracts	4,187 contracts	38 contracts
How to Calculate	<ol style="list-style-type: none"> <li>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"</li> <li>2) Calculate the percentage of buildings with "rent decrease" and buildings with "rent increase".</li> <li>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).</li> </ol>	<ol style="list-style-type: none"> <li>1) Calculate the rent per tsubo of each tenant from the data of new and existing lease contracts and memorandums.</li> <li>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.).</li> <li>3) Estimate a quarterly contract rent by assigning the values of a typical building to the model developed in the preceding step.</li> <li>4) The Paying Rent Index is the rent estimated in the preceding step based on Q1 2010 as the base point (=100).</li> </ol> <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"> <li>• Free Rent Period (Until Q4 2020) The period between the start of the contract and the startof 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.</li> <li>• 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)</li> <li>• Average Free Rent (Month) of All the Contracts The simple average of the free rent period including lease contracts with no free rent period.</li> <li>• 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</li> </ul>

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