

Office Market Report

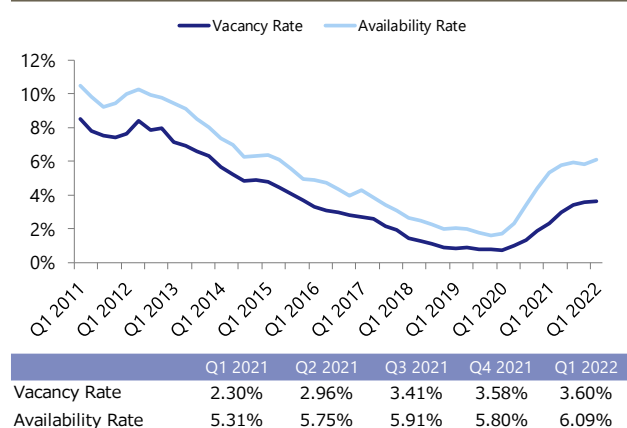
Tokyo | Q1 2022

April 27, 2022



Summary

- In Q1 (January–March) 2022, the office market of the 23 wards of Tokyo (“Tokyo 23 Wards”) showed signs of change as vacancy rates rose more mildly and rent levels dropped marginally.
- The **vacancy rate** was 3.60%, up 0.02 pt from Q4 2021. 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 6.09%, up 0.29 pt from Q4 2021. The **increase and decrease in vacant space** showed that the increase outweighed the decrease for the eighth consecutive quarter, as vacant space increased by 151,000 tsubo (1 tsubo = approx. 3.3 sqm) and decreased by 148,000 tsubo. The **vacancy turnover ratio**, which is the ratio of vacant spaces leased to tenants, rose 0.2 pt to 26.7%.
- The **new contract rent index**, i.e., the level of new lease rent, was 86, down 2 points from Q4 2021. 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, rose 5 points to -26, a negative value for the sixth consecutive quarter.
- The **paying rent index**, which includes both new and existing rents, was unchanged at 100.
- The **average number of free rent months** among all new lease contracts was 2.6 months, and the **ratio of free rent offered** was 75.4%.

Figure 1: Vacancy Rate & Availability Rate


Vacancy

Figure 1 shows the **vacancy rate** and the **availability rate**^{*1,*2}. The vacancy rate of Tokyo 23 Wards in Q1 2022 rose 0.02 pt from Q4 2021 to 3.60%, and the availability rate rose 0.29 pt to 6.09%. Although both rates have risen on the back of an increase in cancellations and downsizing of offices, the pace of the rise has slowed compared to last year.

*1 Availability rate: 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) divided by rentable space

*2 For the rates by size of building and area, see *Vacant Office Space Monthly Report Tokyo | March 2022*.

<https://www.xymax.co.jp/english/research/images/pdf/20220406.pdf>

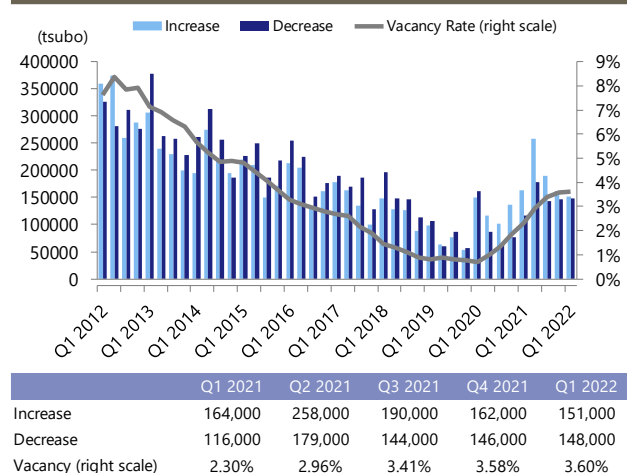
Figure 2: Increase and Decrease in Vacancies (23 Wards, All Sizes)


Figure 2 is the **increase and decrease in vacant space**. In Q1 2022, the increase in vacant space was 151,000 tsubo, while the decrease was 148,000 tsubo. The increase exceeded the decrease for the eighth consecutive quarter. Office relocations seem to have been set into motion in preparation for the end of the COVID-19 pandemic, with some companies that rent large space reviewing their office strategy and reducing their office space, while some SMEs with robust earnings expanding their office space to accommodate their increased workforce.

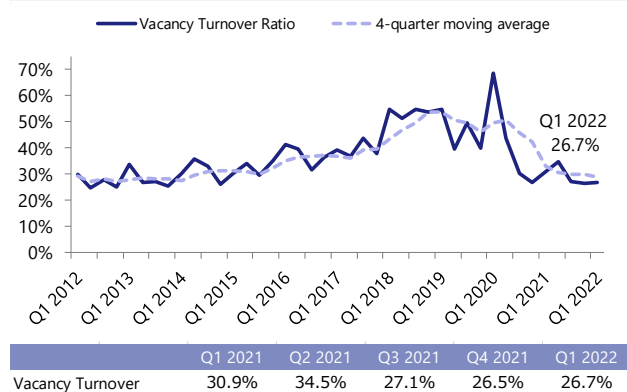
Figure 3: Vacancy Turnover Ratio (4-quarter moving average)


Figure 3 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 2022 remained low at 26.7%

Figure 4: New Contract Rent Index


Figure 4 is the **new contract rent index**, which indicates the rent level for new lease contracts. The index for Q1 2022 was 86, down 2 points from Q4 2021 and down 4 points from Q1 2021. Some lessors appear to be indicating reduced rent as they place greater priority on filling vacancies than the rent level on the back of the rise in vacancy rates. The declining trend of rent is expected to continue, since the contract rent diffusion index is in negative territory and the ratio of free rent offered is rising.

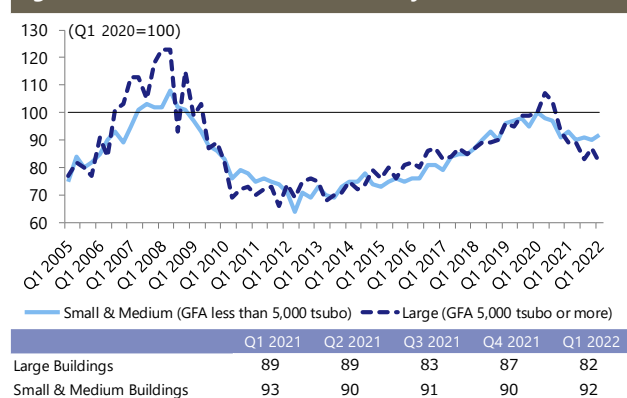
Figure 5: New Contract Rent Index (by Size)


Figure 5 is the new contract rent index **by size of building**. The index for large companies with a gross floor area (GFA) of 5,000 tsubo or more was down 5 points from Q4 2021 at 82, while that for small & medium buildings with a GFA of 300–4,999 tsubo was up 2 points at 92.

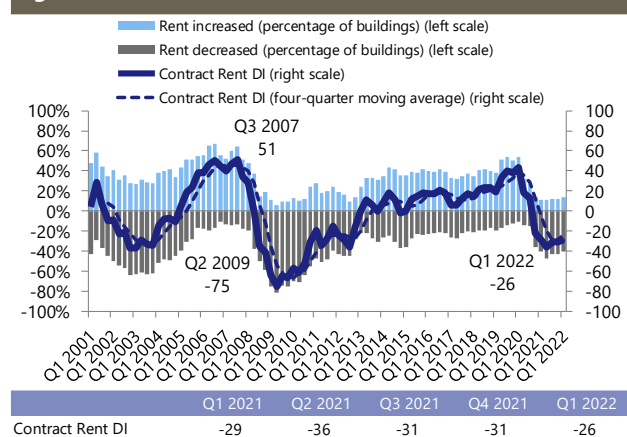
Figure 6: Contract Rent DI


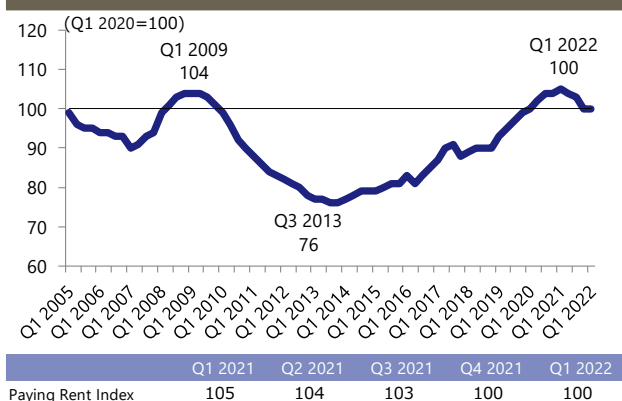
Figure 6 is the **contract rent diffusion index (DI)** (the percentage of buildings with a rent rise minus that of buildings with a rent decline), which indicates the direction of change in new contract rent. Although the DI in Q1 2022 rose 5 points from Q4 2021 to -26, it is in negative territory for the sixth 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.

New Contract Rent

Office Market Report | Tokyo | Q1 2022

The contents of this report are as of the time of writing. Xymax Real Estate Institute does not guarantee their accuracy or completeness. This report may not be reproduced, cited, transmitted, distributed, or reprinted without prior permission of Xymax Real Estate Institute. Copyright © 2022 Xymax Corporation. All rights reserved.

Figure 7: Paying Rent Index



Paying Rent

Figure 7 shows the **paying rent index**, which includes both new lease rents and existing lease rents. The index lags new contract rent. The index in Q1 2022 was unchanged from Q4 2021 at 100 amid a decline in new lease rent.

Free Rent

Figure 8 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 Q1 2022, the ratio of offering FR for one day or more was 75.4%, while that for six months or more was 17.5%. The average number of FR months was 3.4 months among lease contract with FR and 2.6 months among all new contracts. Both the ratio of FR offered and average FR months showed a significant increase. With contracts not infrequently offering free rent for six months or more, offering free rent seems to have become a common practice in the office market.

Figure 8: Free Rent

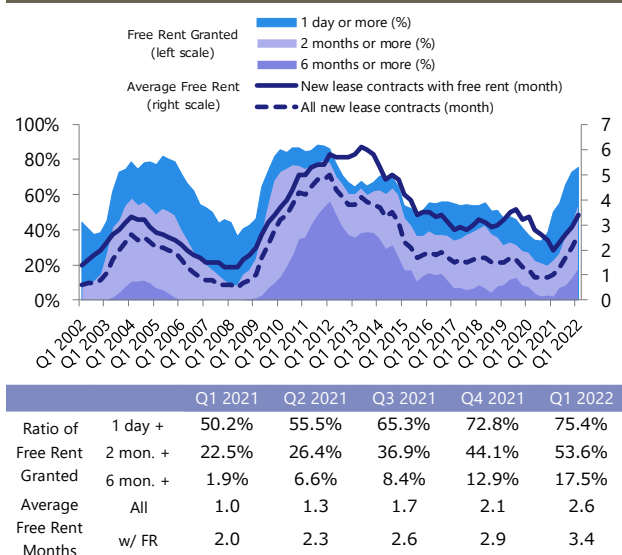
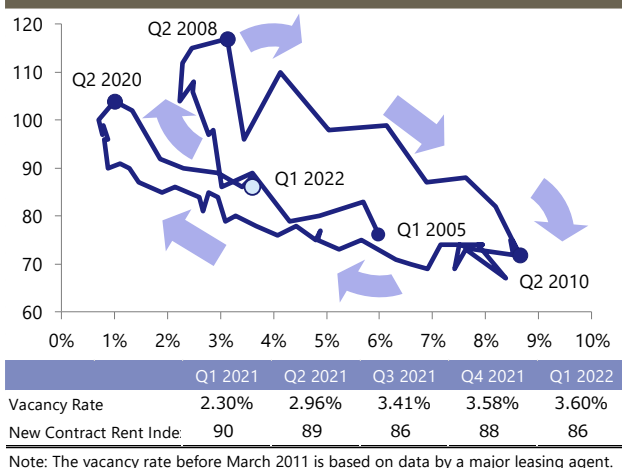


Figure 9: Market Cycle



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

Market Cycle

Figure 9 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 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 reversed in Q2 2020. The chart trended to the lower right in Q1 2022, as the vacancy rate rose and new contract rent index dropped.

Reference

Figure 10: Major Building Completions (Q1 2022)

Name	Floors		Ward	Address	Completion	Total floor area (tsubo)
	Above ground/	Below ground				
Sumitomo Osaki Twin Bldg West	19/2		Shinagawa	5-1-18 Kitashinagawa	Jan 2022	14,729
JR Meguro MARK Bldg	13/1		Shinagawa	3-5-8 Nishigotanda	Mar 2022	11,710
T-Lite	17/2		Minato	2-4 Toranomom	Mar 2022	7,933

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

Figure 11: Major Office Relocations (Q1 2022)

Company	From	To	Timing	Purpose	Size (tsubo)
Pro-Ship Incorporated.	Sumitomo Iidabashi Bldg <i>Bunkyo Ward</i>	Sumitomo Iidabashiekimae Bldg <i>Chiyoda Ward</i>	May 2022	Work style reform	288
wevna inc.	Shibuya Park Plaza <i>Shibuya Ward</i>	Ebisu Square <i>Shibuya Ward</i>	May 2022	Greater efficiency	250

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	8,694 buildings	11,852 contracts	11,852 contracts	439 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. <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"> • Increase in volume of vacant space <ol 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 <ol 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 <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"> • 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 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	536 contracts	4,409 contracts	31 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 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. • 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

Office Market Report | Tokyo | Q1 2022

The contents of this report are as of the time of writing. Xymax Real Estate Institute does not guarantee their accuracy or completeness. This report may not be reproduced, cited, transmitted, distributed, or reprinted without prior permission of Xymax Real Estate Institute. Copyright © 2022 Xymax Corporation. All rights reserved.

For further inquiries please contact below:

Xymax Real Estate Institute
<https://soken.xymax.co.jp> | E-MAIL: info-rei@xymax.co.jp