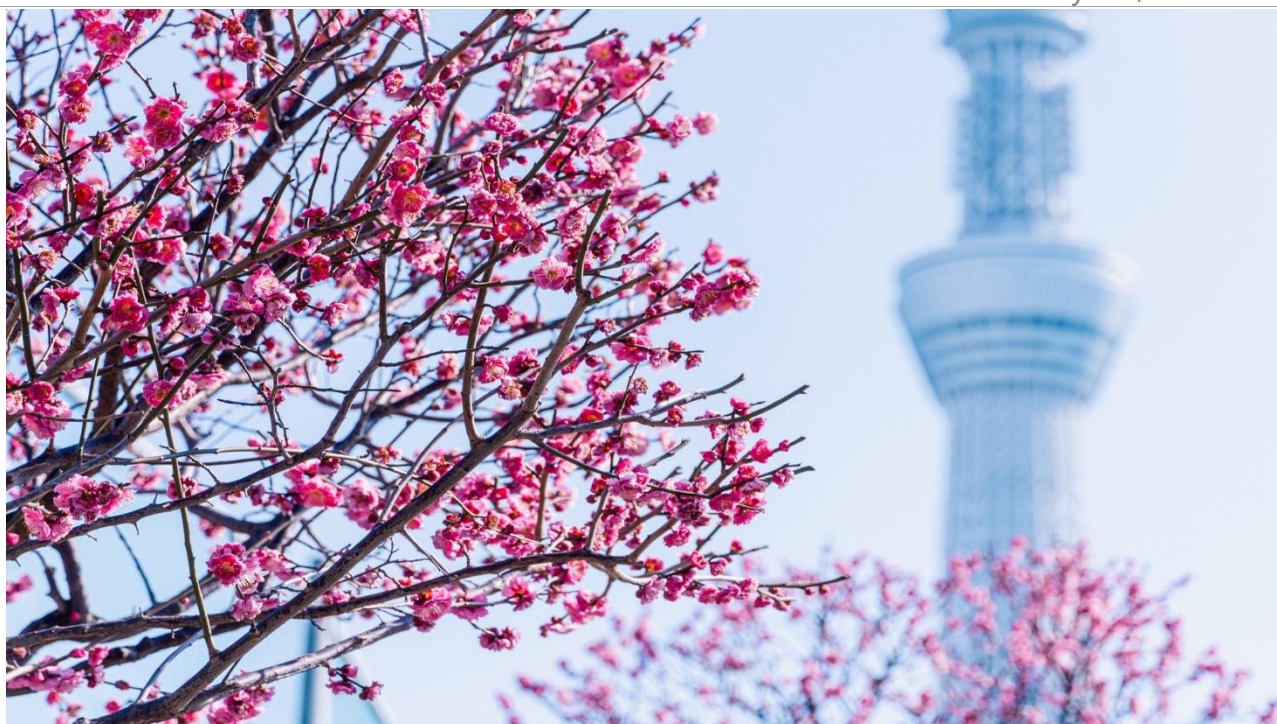


# Office Market Report

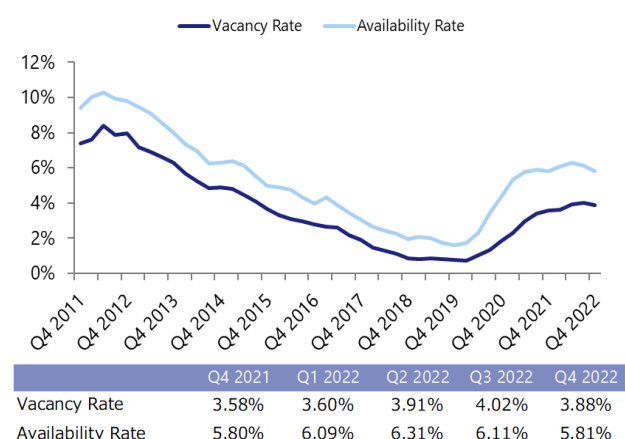
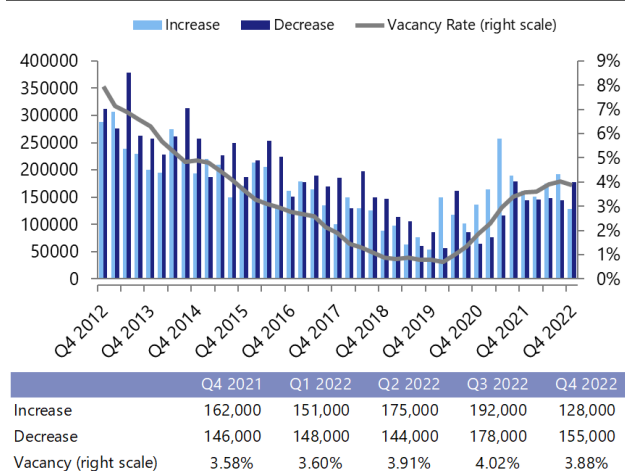
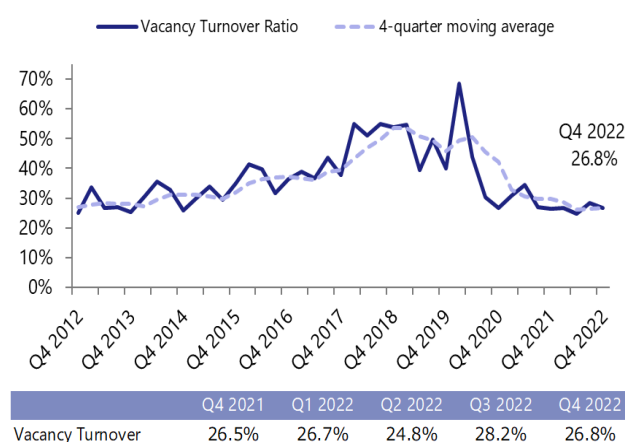
Tokyo | Q4 2022

January 25, 2023



## Summary

- In Q4 (October–December) 2022, the office market of the 23 wards of Tokyo (“Tokyo 23 Wards”) showed a drop in the vacancy rate from Q3 2022 and a decline in rent levels.
- The **vacancy rate** was 3.88%, down 0.14 pt from Q3 2022. The **availability rate**, which includes space for which a cancellation notice has been given and vacant space current available (i.e., accepting tenant applications), was 5.81%, down 0.3 pt from Q3 2022. The **increase and decrease in vacant space** showed that the decrease outweighed the increase as vacant space increased by 128,000 tsubo (1 tsubo = approx. 3.3 sqm) and decreased by 155,000 tsubo. The **vacancy turnover ratio**, which is the ratio of vacant spaces leased to tenants, dropped 1.4 pt from Q3 2022 to 26.8%.
- The **new contract rent index**, i.e., the level of new lease rent, was 87, down 4 pt from Q3 2022. The **contract rent diffusion index**, the percentage of buildings with a rise in new rent minus that of buildings with a drop in new rent, rose 10 pt from Q3 2022, but remained in negative territory for the ninth consecutive quarter at -11.
- The **paying rent index**, which includes both new and existing rents, rose 1 pt from Q3 2022 to 103.
- The **average number of free rent months among lease contracts with free rent** was 3.9 months, the **ratio of free rent of more than two months** was 50.9%, and that of **more than six months** was 19.5%.

**FIGURE 1: VACANCY RATE & AVAILABILITY RATE**

**FIGURE 2: INCREASE AND DECREASE IN VACANCIES (23 WARDS, ALL SIZES)**

**FIGURE 3: VACANCY TURNOVER RATIO (4-QUARTER MOVING AVERAGE)**


## Vacancy

Figure 1 shows the **vacancy rate** and the **availability rate**.<sup>\*1\*2</sup> The vacancy rate of Tokyo 23 Wards in Q4 2022 dropped 0.14 pt from Q3 to 3.88%. The availability rate declined 0.3 pt to 5.81%. The vacancy rate dropped for the first time since Q1 2020, 11 quarters ago. In general, the vacancy rate tends to drop when office demand expands on the back of companies' improved business confidence. However, it is hard to ascertain whether the vacancy rate will continue to drop given the uncertainties in the environment surrounding the Japanese economy, such as BOJ policy changes, foreign exchange developments, and inflation concerns.

\*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 | December 2022*.  
<https://www.xymax.co.jp/english/research/images/pdf/20230106.pdf>

Figure 2 is the **increase and decrease in vacant space**. In Q4 2022, the increase was 128,000 tsubo, and the decrease was 155,000 tsubo. The decrease exceeded the increase for the first time since Q1 2020, 11 quarters ago. The amount of both the increase and decrease was smaller than in Q3 partly because there were fewer new completions in Q4.

Figure 3 is 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 2022 was down slightly from Q3 at 26.8%. The ratio dropped amid a falling vacancy rate, probably due to the smaller decrease in vacant space as much of the vacant space that increased in Q3 was not filled and was carried over to Q4.

FIGURE 4: NEW CONTRACT RENT INDEX



## New Contract Rent

Figure 4 is the **new contract rent index**, which indicates the rent level for new lease contracts. The index for Q4 2022 was 87, down 4 pt quarter on quarter and down 1 pt year on year. The downward trend that had continued since Q3 2020 seems to have paused, and the index appears to be trending flat.

FIGURE 5: NEW CONTRACT RENT INDEX (BY SIZE)

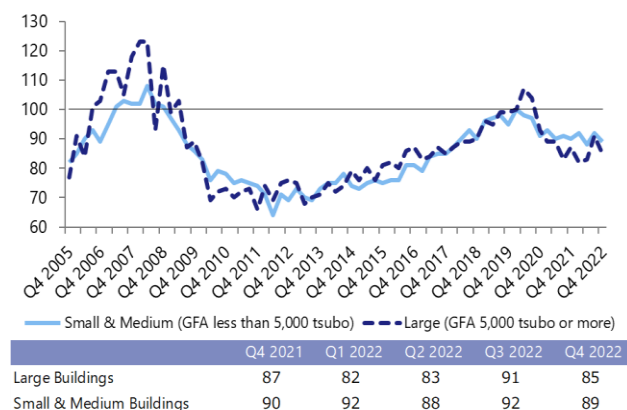


Figure 5 is the new contract rent index **by size of building**. The index for large buildings with a gross floor area (GFA) of 5,000 tsubo or more was down 6 pt from Q3 2022 at 85, while that for small & medium buildings with a GFA of 300–4,999 tsubo was down 3 pt at 89. The index by size of building is also trending flat.

FIGURE 6: CONTRACT RENT DIFFUSION INDEX (DI)

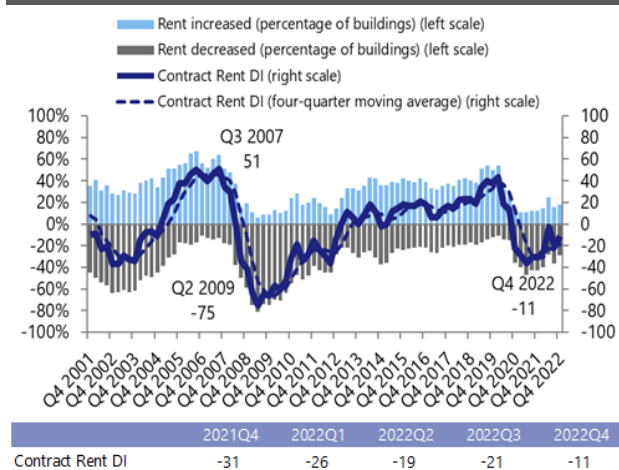
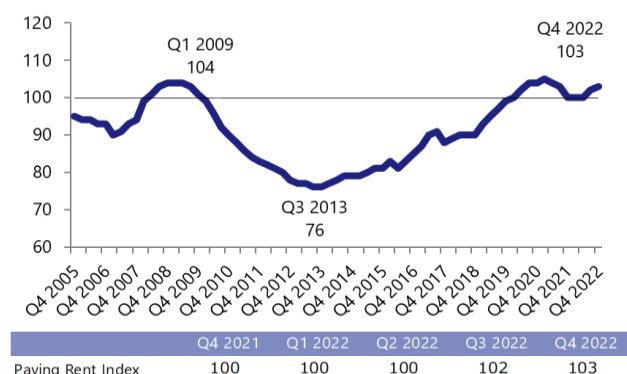
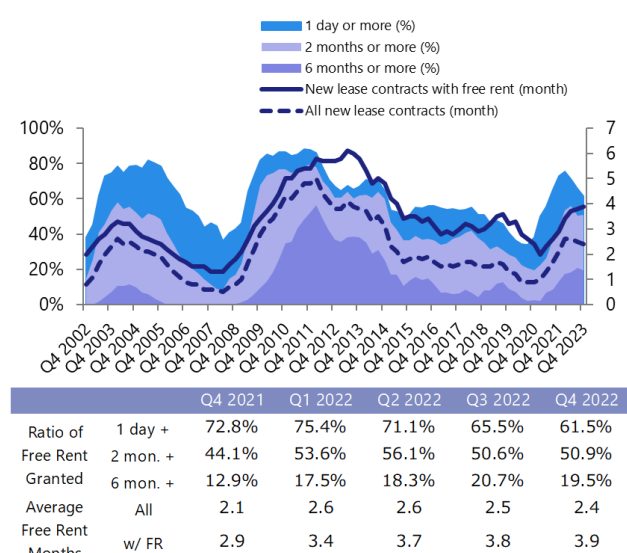
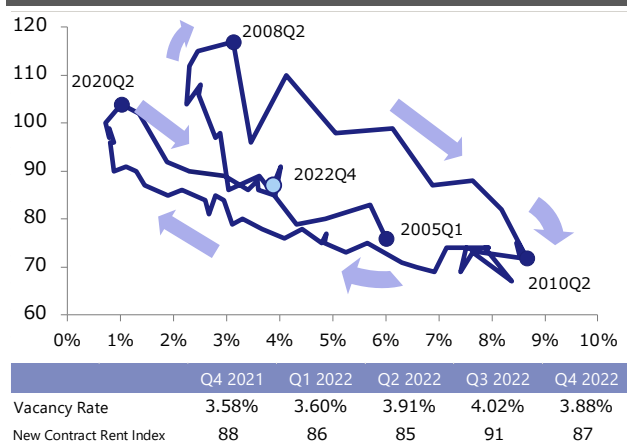


Figure 6 is the **contract rent diffusion index (DI)** (the percentage of buildings with a rent rise minus that of buildings with a rent decline), which indicates the direction of change in new contract rent. In Q4 2022, the DI was -11, up 10 pt from Q3 2022 and in negative territory for the ninth consecutive quarter. A negative DI means there are more buildings with lower new rent than those with higher new rent compared to six months ago. Properties with a rent rise and those with a rent decline were both few, which suggests that the fluctuation in rent is beginning to subside.

**FIGURE 7: PAYING RENT INDEX**

**FIGURE 8: FREE RENT**

**FIGURE 9: MARKET CYCLE**


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

## 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 and has less volatility. In Q4 2022, the index was 103, up 1 pt from Q3.

## Free Rent

Figure 8 shows the percentage of new lease contracts with free rent (FR) to all new lease contracts (**ratio of FR granted**) and the average free rent period (**average FR months**). In Q4 2022, the ratio of granting FR for one day or more was 61.5%, down 4.0 pt from Q3, that for two months or more was 50.9%, roughly unchanged from Q3, and that for six months or more was 19.5%, down 1.2 pt. The average number of FR months among lease contracts with FR was 3.9, increasingly marginally from Q3. While contracts without FR is increasing, the ratio of granting FR for six months or more has been gradually rising and has reached nearly 20%. We believe these changes in the ratio of FR granted to be a reflection of the properties' competitiveness and the difference in the policies of building owners.

## 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 cyclical nature of the market, with the chart trending to the upper left (vacancy down, rent up) since 2005, moving to the lower right (vacancy up, rent down) since 2008, and returning to the upper left (vacancy down, rent up) since 2010. In Q4 2022, the chart moved to the lower left since both the vacancy rate and the new contract rent index dropped. Amid the declining phase of the rental market since Q3 2020, the cycle has been moving back and forth since Q3 2022. We must keep a close eye on the future direction.



## Reference

**Figure 10: Major Building Completions (Q4 2022)**

| Name                             | Floors<br>Above ground/<br>Below ground | Ward    | Address           | Completion | Total<br>floor area<br>(tsubo) |
|----------------------------------|---|---------|-------------------|------------|--------------------------------|
| Tamachi M-SQUARE Garden          | 11                                      | Minato  | 5-26 Shiba        | Oct 2022   | 3,000                          |
| Daiwa Nihonbashi Bakurocho Bldg. | 10                                      | Chuo    | 1-204-1 Bakurocho | Nov 2022   | 1,298                          |
| CIRCLES Ichigaya                 | 9/1                                     | Chiyoda | 4-19 Yombancho    | Nov 2022   | 1,121                          |

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

**Figure 11: Major Office Relocations (Q4 2022)**

| Company                           | From   | To  | Timing   | Purpose  | Size<br>(tsubo) |
|-----------------------------------|--|---|----------|--|-----------------|
| J Trust Co.,Ltd                   | Akasaka Enoki-Zaka Bldg<br><i>Minato Ward</i>        | Yebisu Garden Place<br>Tower<br><i>Shibuya Ward</i> | Dec 2022 | Reinforcing headquarter functions and<br>work efficiency | 860             |
| Sony PCL Inc.                     | Meguro Tokyu Bldg<br>VPO Megro<br><i>Minato Ward</i> | A-PLACE Shinagawa<br>Higashi<br><i>Minato Ward</i>  | Dec 2022 | Optimizing productivity through office<br>consolidation  | 1,041           |
| Restar Electronics<br>Corporation | Rikkokai Bldg<br><i>Shinagawa Ward</i>               | Restar Bldg<br><i>Minato Ward</i>                   | Jan 2023 | Strengthening sales and service                          | 3,413           |

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 | 8,777 buildings  | 12,048 contracts   | 12,048 contracts  | 780 contracts  |
| How to Calculate            | <ul style="list-style-type: none"> <li>• Vacancy rate<br/>= vacant space ÷ rentable space</li> <li>• Vacant Space<br/>Total available vacant space in completed buildings as of the time of the research.</li> <li>• Rentable Space<br/>Rentable space of completed buildings as of the time of the research.</li> <li>• Availability rate<br/>= available space ÷ rentable space</li> <li>• Available space<br/>Total available space, which consist of vacant space and space for which notice of cancellation has been given.</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</p> | <ul style="list-style-type: none"> <li>• Increase in volume of vacant space<br/>a. Space in existing buildings formerly occupied by tenants<br/>b. Total rentable area of new completions</li> <li>• Decrease in volume of vacant space<br/>a. Space in existing buildings leased under a new agreement<br/>b. Space in new completions but lease is signed prior to the completion<br/>c. Space that had been vacant but the owner decided not to lease</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<br/>= Volume of vacant space leased during the quarter ÷ (Initial vacancy + Vacancy added during the quarter)<br/>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.<br/>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> | <p>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.).</p> <p>2) Estimate the quarterly contract rent by assigning the values of a typical building to the model developed in the preceding step.</p> <p>3) Calculate the rent estimated in the preceding step based on Q1 2020 as the base point (=100) by market segment (four segments).</p> <p>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> |

| 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 | 647 contracts  | 4,463 contracts  | 26 contracts  |
| How to Calculate            | <p>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: buildings with "rent increase", "no change" or "rent decrease"</p> <p>2) Calculate the percentage of buildings with "rent decrease" and buildings with "rent increase".</p> <p>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).</p> | <p>1) Calculate the rent per tsubo of each tenant from the data of new and existing lease contracts and memorandums.</p> <p>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.).</p> <p>3) Estimate a quarterly contract rent by assigning the values of a typical building to the model developed in the preceding step.</p> <p>4) The Paying Rent Index is the rent estimated in the preceding step based on Q1 2010 as the base point (=100).</p> <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<br/>(Until Q4 2020) The period between the start of the contract and the startof the rent, shown in number of days.<br/>(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<br/>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<br/>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<br/>The simple average of the free rent period of lease contracts with a free rent period</li> </ul> |

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