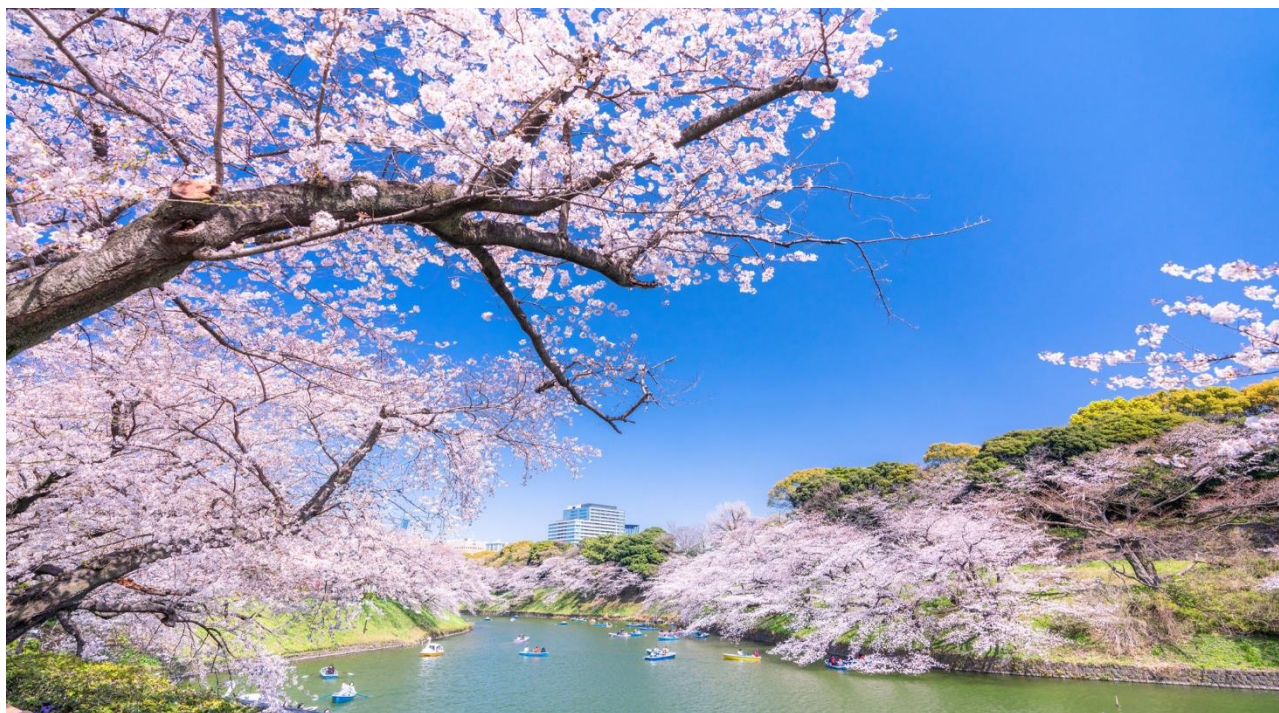


Office Market Report

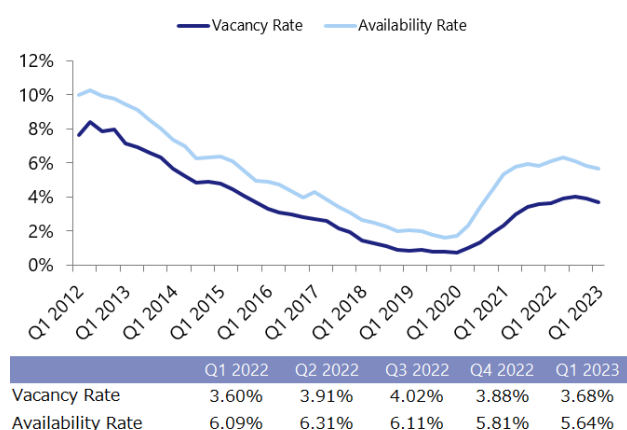
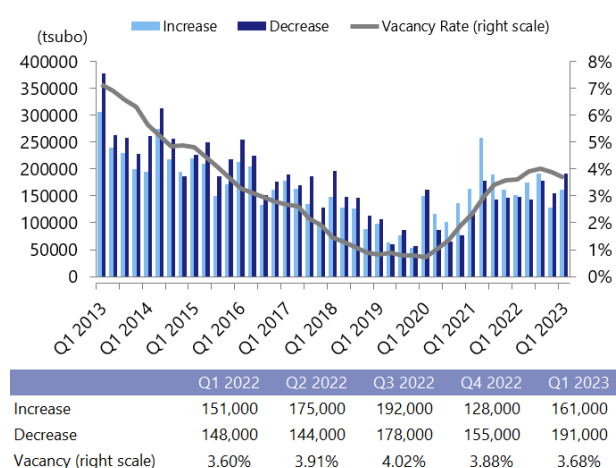
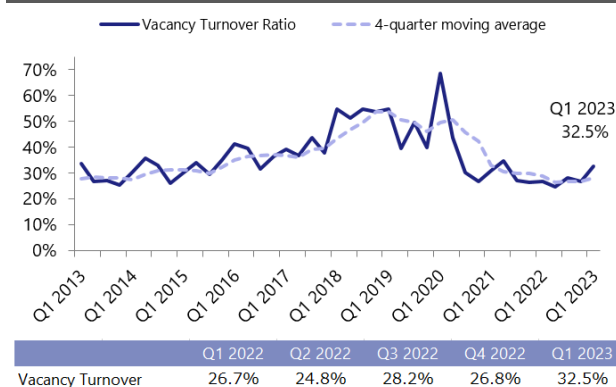
Tokyo | Q1 2023

April 25, 2023



Summary

- In Q1 (January–March) 2023, the office market of the 23 wards of Tokyo (“Tokyo 23 Wards”) saw a drop in the vacancy rate and a marginal increase in rent levels from Q4 2022.
- The **vacancy rate** was 3.68%, down 0.2 pt from Q4 2022. 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 5.64%, down 0.17 pt from Q4 2022. In terms of the **increase and decrease in vacant space**, the decrease outweighed the increase as vacant space increased by 161,000 tsubo (1 tsubo = approx. 3.3 sqm) and decreased by 191,000 tsubo. The **vacancy turnover ratio**, the ratio of vacant spaces leased to tenants, rose 5.7 pt from Q4 2022 to 32.5%.
- The **new contract rent index**, the level of new lease rent, was 90, up 3 pt from Q4 2022. The **contract rent diffusion index**, the percentage of buildings with new lease rent that increased minus that of buildings with new lease rent that decreased, rose 3 pt from Q4 2022 but remained in negative territory for the tenth consecutive quarter at -8.
- The **paying rent index**, which includes new and existing rents, was unchanged at 103.
- The **average number of free rent months among lease contracts with free rent** was 3.6 months, the **ratio of free rent for two months or more** was 39.0%, and that for **six months or more** was 12.2%.

**FIGURE 1: VACANCY RATE & AVAILABILITY RATE
(ALL SIZES)**

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

FIGURE 3: VACANCY TURNOVER RATIO


Vacancy

Figure 1 shows the **vacancy rate** and the **availability rate**.^{*1*2} The vacancy rate of Tokyo 23 Wards in Q1 2023 dropped 0.2 pt from Q4 2022 to 3.68%, and the availability rate was down 0.17 pt at 5.64%. The vacancy rate declined for the second consecutive quarter. The availability rate dropped for the third consecutive quarter as the increase in new occupancy continued to outpace cancellation notices. This is due to a rise in demand for office space, especially among companies increasing their headcount, while companies that had restricted their employees from coming to the office also began to have their employees come to the office at pre-pandemic frequencies. Office expansions and relocations also became apparent. Although there are fewer vacancies in popular areas, vacancies remain high in general. The impact of future supply also requires attention, as the supply of new office space in 2023 is nearly three times that of 2022.^{*3}

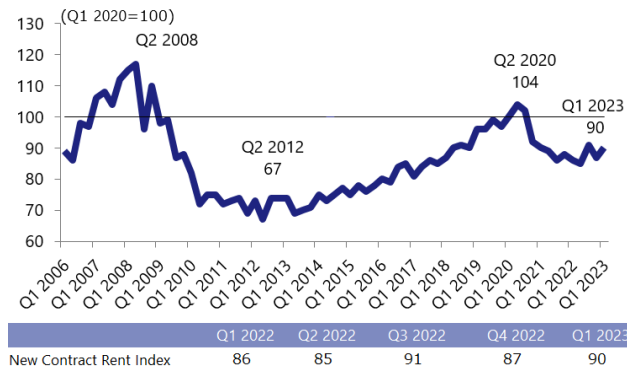
*1 Availability rate: The sum of currently vacant space, space for which a cancellation notice has been given, and space that is accepting tenant applications (before the previous tenant has left) divided by rentable space

*2 For the rates by building size and area, see *Vacant Office Space Monthly Report Tokyo | March 2023*.
<https://www.xymax.co.jp/english/research/images/pdf/20230405.pdf>

*3 See *Supply of New Office Space 2023*
https://www.xymax.co.jp/english/research/images/pdf/20230118_1.pdf

Figure 2 shows the **increase and decrease in vacant space**. The increase was 161,000 tsubo in Q1 2023, and the decrease was 191,000 tsubo. As in Q4 2022, the decrease exceeded the increase. In Q1 2023, both the increase and decrease rose from Q4 2022, as many companies relocated ahead of April when the new fiscal year begins.

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 was 32.5%, up 5.7 pt.

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 Q1 2023 was 90, up 3 pt quarter on quarter and up 4 pt year on year. The downward trend that has continued since Q3 2020 seems to have paused, and the index is currently trending flat. Rent levels remain unchanged as fewer lessors reduce rents significantly to attract tenants as the pandemic subsides.

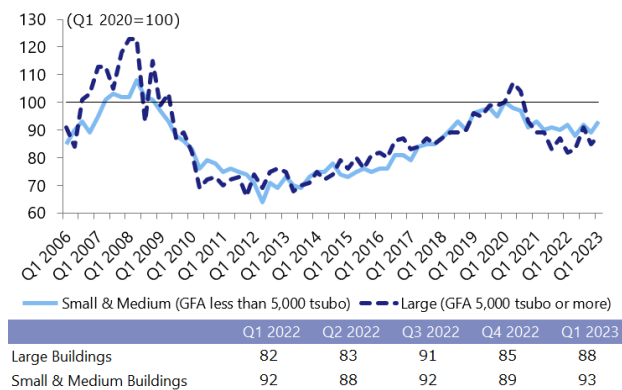
FIGURE 5: NEW CONTRACT RENT INDEX (BY SIZE)


Figure 5 shows the new contract rent index **by building size**. The index for large buildings with a gross floor area (GFA) of 5,000 tsubo or more was up 3 pt from Q4 2022 at 88, and that for small & medium buildings with a GFA of 300–less than 5,000 tsubo was up 4 pt at 93. The index is trending flat also in terms of building size.

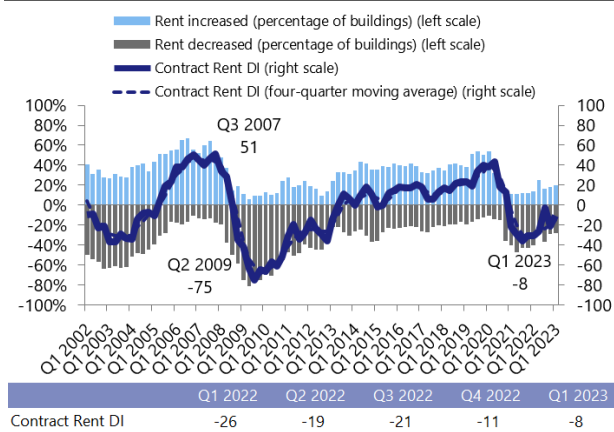
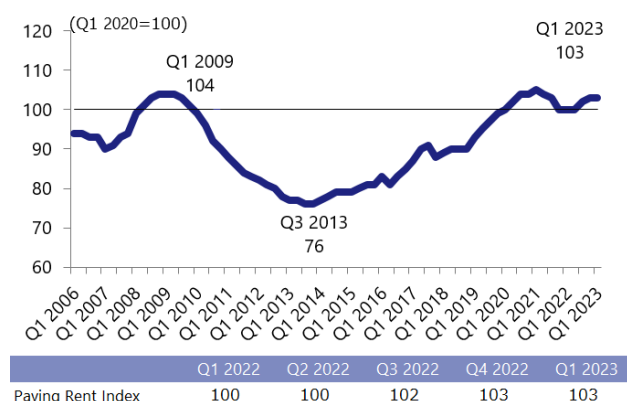
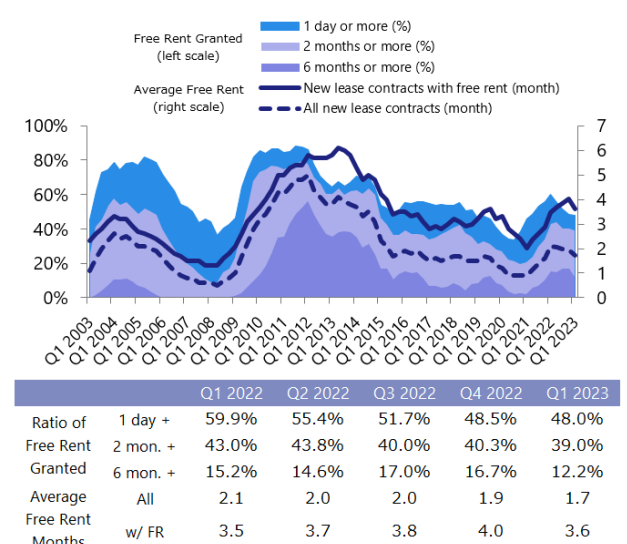
FIGURE 6: CONTRACT RENT DI


Figure 6 is the **contract rent diffusion index (DI)** (the percentage of buildings with new contract rent that increased compared to six months ago minus that of buildings with decreased rent), which indicates the direction of change in new contract rent. In Q1 2023, the DI was -8, up 3 pt from Q4 2022 and in negative territory for the tenth consecutive quarter. A negative DI means more buildings with a rent decrease than those with a rent increase. The negative range of the DI is gradually becoming smaller, indicating that the downward trend in rents is slowing down.

FIGURE 7: PAYING RENT INDEX

FIGURE 8: FREE RENT

FIGURE 9: MARKET CYCLE


Paying Rent

Figure 7 shows the **paying rent index**, which includes both new and existing lease rents. The index lags new contract rent and has less volatility. The index for Q1 2023 was unchanged from the previous quarter at 103.

Free Rent

Figure 8 shows the percentage of new lease contracts that granted free rent (FR) (**ratio of granting FR**) and the average free rent period (**average FR months**).^{*4} In Q1 2023, the ratio of granting FR for one day or more was 48.0%, down 0.5 pt from Q4 2022, that for two months or more was 39.0%, down 1.3 pt, and that for six months or more was 12.2%, down 4.5 pt. The average number of FR months among lease contracts with FR was 3.6, decreasing slightly from Q4 2022. While some areas and plots from where large companies have left still offered free rent for 12 months, there was a move among owners of properties in prime locations to avoid offering long-term free rent.

^{*4} The aggregation method has been changed from Q1 2023. The figures for Q1 2021 to Q4 2022 have been updated accordingly.

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) in 2005, moving to the lower right (vacancy up, rent down) in 2008, and returning to the upper left (vacancy down, rent up) in 2010. In Q1 2023, the chart moved to the upper left since the vacancy rate dropped and the new contract rent index rose. After the downward trend of the rental market since Q3 2020, the cycle has been moving back and forth for the past year.

Reference

Figure 10: Major Building Completions (Q1 2023)

Name	Floors Above ground/ Below ground	Ward	Address	Completion	Total floor area (tsubo)
Tokyo Mita Redevelopment Project	42/4	Minato	3-5-19 Mita	Feb 2023	60,412
DNP Ichigaya Kagacho 3rd building	5/3	Shinjuku	1-1 Ichigaya Kagacho	Feb 2023	12,387
dogenzaka-dori	28/1	Shibuya	2-1-6 Dogenzaka	Mar 2023	12,667

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

Figure 11: Major Office Relocations (Q1 2023)

Company	From	To	Timing	Purpose	Size (tsubo)
Taisei-Yuraku Real Estate Co.,Ltd.	Hulic Yaesu No.2 bldg <i>Chuo Ward</i>	Harumi Island Triton Square Office Tower Y <i>Chuo Ward</i>	Jan 2023	Consolidating multiple sites	565
Norinchukin Zenkyoren Asset Management Co., Ltd.	JA Kyosai bldg <i>Chiyoda Ward</i>	KUDAN-KAIKAN TERRACE <i>Chiyoda Ward</i>	Feb 2023	Consolidating multiple sites	1,000
Mizuho Securities Co., Ltd.	Sumitomo Realty & Development Yaesu bldg <i>Chuo Ward</i>	YANMAR TOKYO <i>Chuo Ward</i>	Mar 2023	Integrating the Sales department	550

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

The sizes of offices are estimates.

Survey Overview				
	Vacancy Rate Availability 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	8,811 buildings	11,853 contracts	11,853 contracts	529 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 <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 <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"> 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.). Estimate the quarterly contract rent by assigning the values of a typical building to the model developed in the preceding step. Calculate the rent estimated in the preceding step based on Q1 2020 as the base point (=100) by market segment (four segments). 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.

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	683 contracts	4,453 contracts	63 contracts
How to Calculate	<ol style="list-style-type: none"> 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" Calculate the percentage of buildings with "rent decrease" and buildings with "rent increase". 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"> Calculate the rent per tsubo of each tenant from the data of new and existing lease contracts and memorandums. 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.). Estimate a quarterly contract rent by assigning the values of a typical building to the model developed in the preceding step. 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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