



Office Market Report Tokyo Q3 2023

October 25, 2023

XYMAX REAL ESTATE INSTITUTE
Corporation

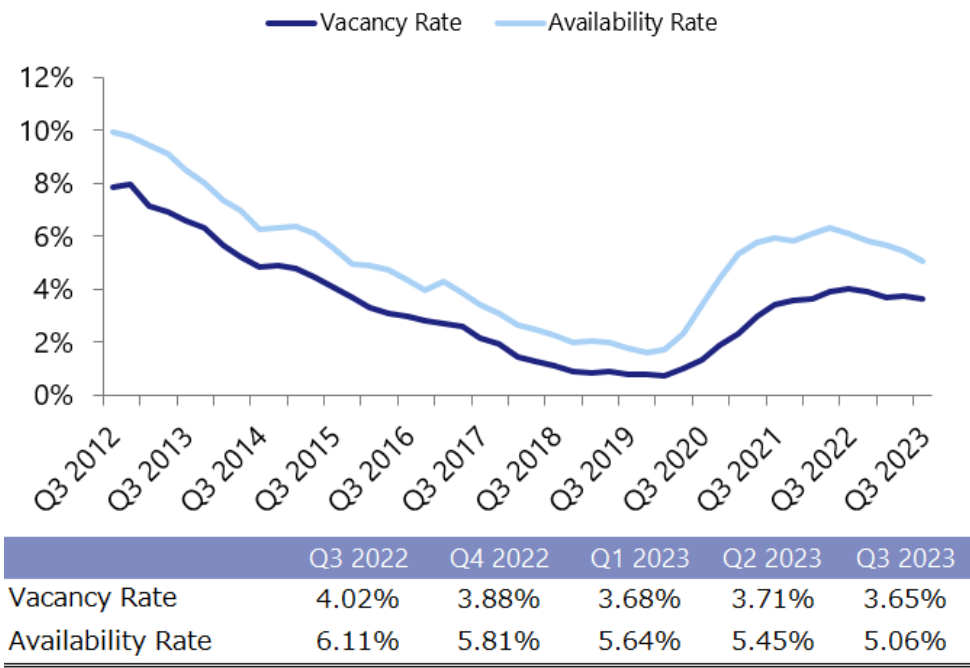
Summary

- In Q3 (July–September) 2023, the office market of the 23 wards of Tokyo (“Tokyo 23 Wards”) remained flat relative to the previous quarter, with the vacancy rate declining marginally and rent levels rising slightly.
- The **vacancy rate** was **3.65%**, down 0.06 pt from Q2. 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 **5.06%**, down 0.39 pt from Q2. In terms of the **increase and decrease in vacant space**, the decrease outweighed the increase, with the **increase** at **118,000 tsubo** and the **decrease** at **145,000 tsubo**. The **vacancy turnover ratio**, the percentage of vacant space leased to tenants, dropped 1.4 pt from Q2 to **28.3%**.
- The **new contract rent index**, the level of new lease rent, was **90**, up 1 pt from Q2. The **contract rent diffusion index**, the percentage of buildings with a higher new lease rent minus that of buildings with a lower new lease rent, rose 2 pt from Q2 to **−9**, in negative territory for the twelfth consecutive quarter.
- The **paying rent index**, which includes new and existing rents, was **103**, down 2pt from Q2.
- The **average free rent (month)** among **all lease contracts** and **lease contracts with free rent** was **2.1 months** and **4.2 months**, respectively. The **ratio of free rent for two months or more** was **42.9%**, and that for **six months or more** was **14.7%**.

Vacancy Rate 3.65%, Availability Rate 5.06%

- The vacancy rate **dropped 0.06 pt** from Q2 to **3.65%**.
- The availability rate was down **0.39 pt** from Q2 to **5.06%**.
- The availability rate has been declining for four consecutive quarters, indicating that the increase in new occupancy has continued to outpace cancellation notices.
- There has been some polarization in that some vacant space is quickly filled while others are not. However, office demand is relatively robust due to office expansions as workers return to the office and companies' headcount increases.
- Some newly completed large buildings are attempting to attract large tenants through independent tenant recruitment activities. We must continue to keep a close watch on the impact this will have.

Figure 1: Vacancy & Availability Rates (All Sizes)



Vacancy rate: The percentage of vacant space (vacant space that has been vacated and is available for immediate occupancy; currently vacant space) to total rentable area

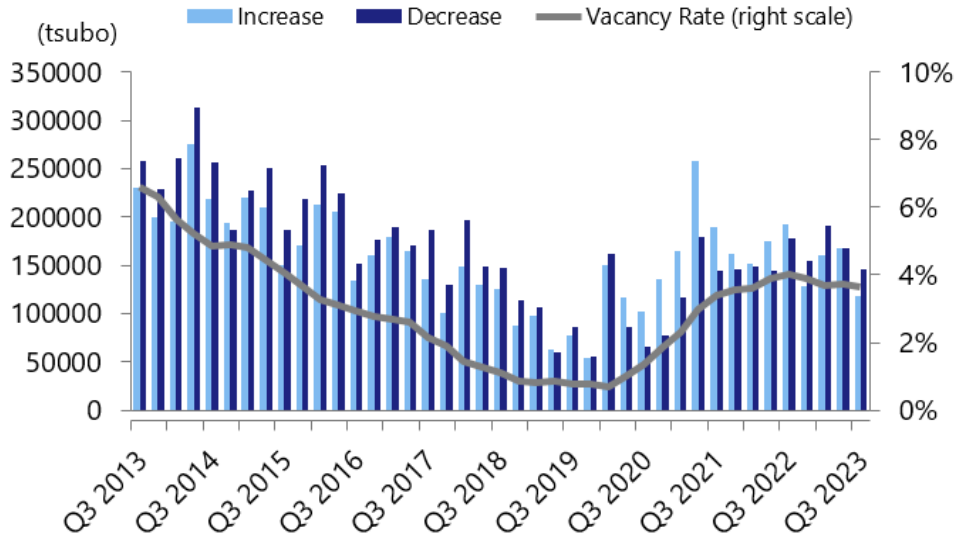
Availability rate: The percentage of the sum of currently vacant space, space for which a cancellation notice has been given, and space that is accepting tenant applications (before the previous tenant has left) to the total rentable area

See *Vacant Office Space Monthly Report* for the rates by building size and area.

Vacant Space Increase 118,000 tsubo, Decrease 145,000 tsubo

- The **increase in vacant space** was **118,000 tsubo**, down **49,000 tsubo** from Q2.
- The **decrease in vacant space** was **145,000 tsubo**, down **22,000 tsubo** from Q2.
- The decrease in vacant space outweighed the increase on the back of relatively robust office demand.

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



Increase in vacant space: The sum of the following

- Vacant space in existing buildings caused by tenants leaving, etc.
- Total rentable area of new completions

Decrease in vacant space: The sum of the following

- Vacant space in existing buildings no longer available for tenants due to new occupancy, etc.
- Space in new completions where lease is signed prior to the completion

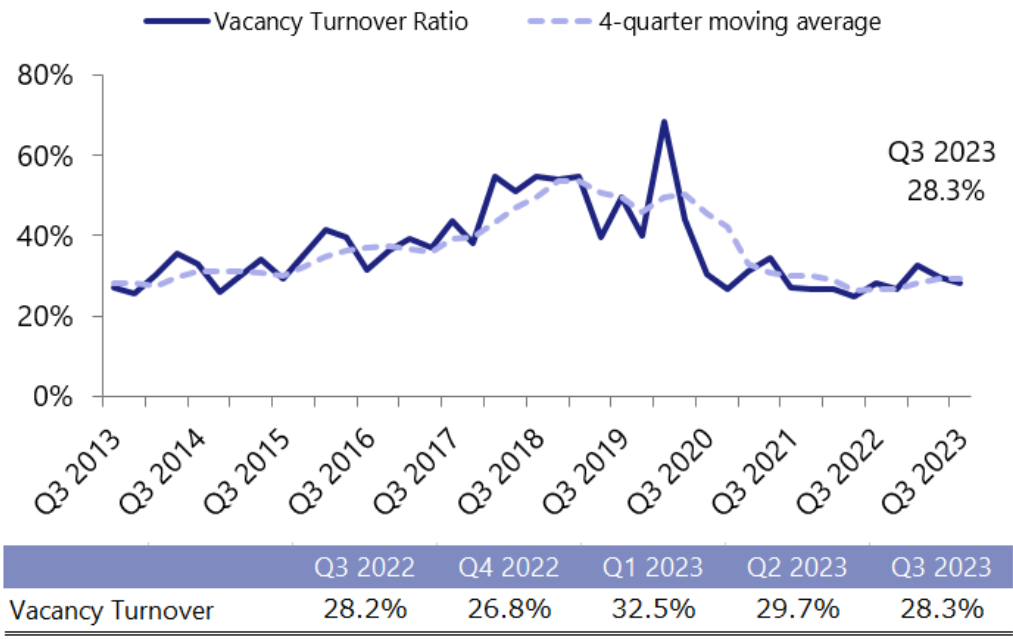
	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
Increase	192,000	128,000	161,000	167,000	118,000
Decrease	178,000	155,000	191,000	167,000	145,000
Vacancy (right scale)	4.02%	3.88%	3.68%	3.71%	3.65%

For further details, see *Survey of Increase and Decrease in Vacant Office Space (Tokyo 23 Wards)*, released January 23, 2017. <https://www.xy max.co.jp/english/research/images/pdf/20170123.pdf>

Vacancy Turnover Ratio at 28.3%

- The **vacancy turnover ratio** was **28.3%**, down **1.4 pt** from Q2.
- There has been little fluctuation in the vacancy turnover ratio as vacancies are being filled at a stable rate.

Figure 3: Vacancy Turnover Ratio

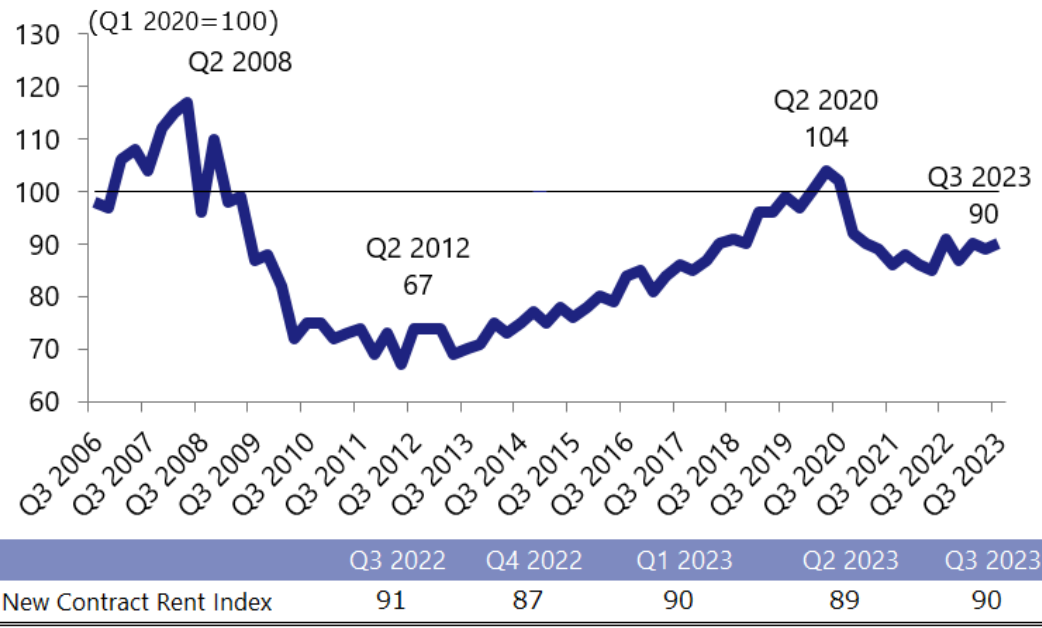


Vacancy turnover ratio: The percentage of vacant space leased during the quarter to the total vacant office stock (initial vacancy + vacancy added during the quarter).

New Contract Rent Index at 90

- The **new contract rent index** was **90**, **up 1 pt** from Q2.
- While there are concerns about a downturn in the overseas economy, the Japanese economy is on a gradual recovery trend, and new rent remained flat this quarter due to balanced supply and demand.

Figure 4: New Contract Rent Index



New contract rent index: An index for new unit contract rent with property-specific influences removed by adjusting for quality in factors that form rent, including size and age of the building.

Please refer to the following reports for further details.

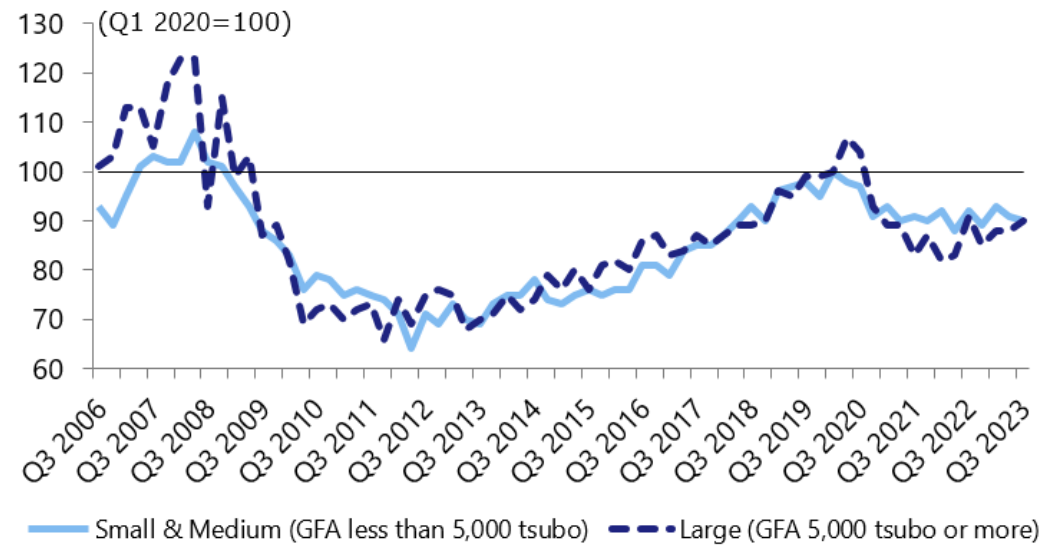
Xymax New Contract Rent Index, released September 19, 2014
<https://www.xymax.co.jp/english/research/images/pdf/20140919-04.pdf>

Revised New Contract Rent Index, released April 19, 2021 (in Japanese only)
https://soken.xymax.co.jp/2021/04/19/2104-new_contract_rent_index_revise2021/

New Contract Rent Index (By Size): 90 for Large Buildings, 90 for Small & Medium Buildings

- The **new contract rent index for large buildings (gross floor area (GFA) of 5,000 tsubo or more) was up 2 pt from Q2 to 90.**
- The **new contract rent index for small & medium buildings (GFA of less than 5,000 tsubo) was down 1 pt from Q2 to 90.**
- New rent levels for both large buildings and small & medium buildings have been rising gradually or trending flat over the past year, with no difference in trend by the size of building.

Figure 5: New Contract Rent Index (By Size)



	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
Large Buildings	91	85	88	88	90
Small & Medium Buildings	92	89	93	91	90

Contract Rent DI at -9

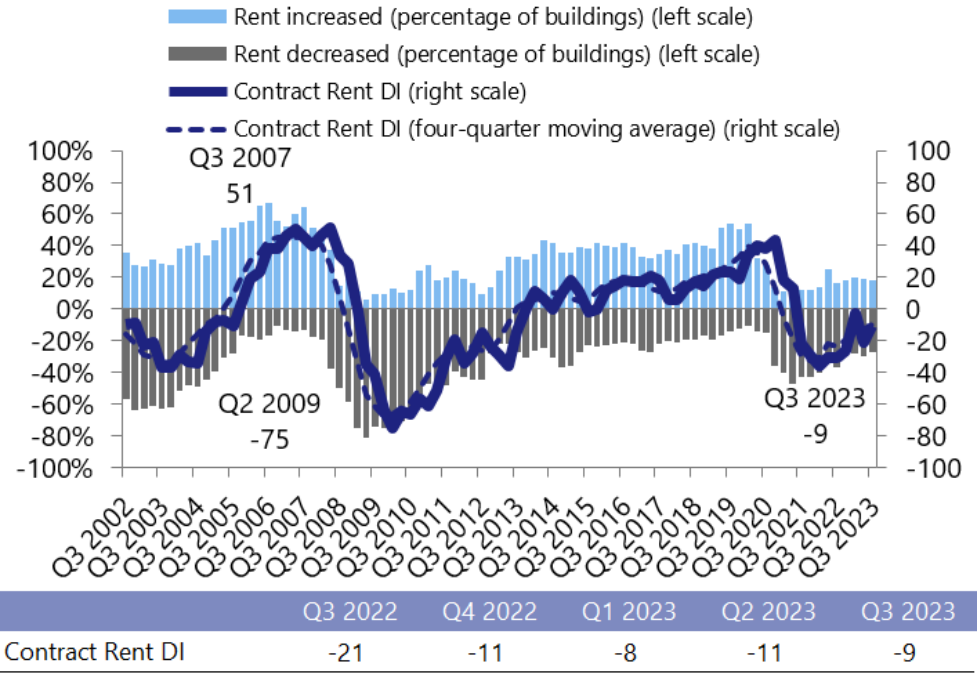
- The **contract rent diffusion index (DI)** was **-9**, up **2 pt** from Q2. The DI was in negative territory for the twelfth consecutive quarter. A negative DI means there are more buildings with a rent decrease than those with a rent increase.
- After slumping into deeper negative territory in Q2, the DI rose again in Q3. Some building owners who had set asking rent levels lower restored their asking rent to the former levels due to a decrease in vacancies.

Contract rent DI: An index derived by "the percentage of buildings with a higher new contract rent than six months ago — that of buildings with a lower rent)." It indicates the direction of change in new contract rent.

For the DI's relationship with various economic indices, see *Release of Quarterly Contract Rent DI Report*, released December 11, 2013.
https://www.xymax.co.jp/english/research/images/pdf/131211_News-release.pdf

For the DI's relationship with the new contract rent index, see *Office Market Report Tokyo Q4 2020 TOPIC 1*, released February 3, 2021.
https://soken.xymax.co.jp/2021/02/03/2102-office_market_report_q4_2020/

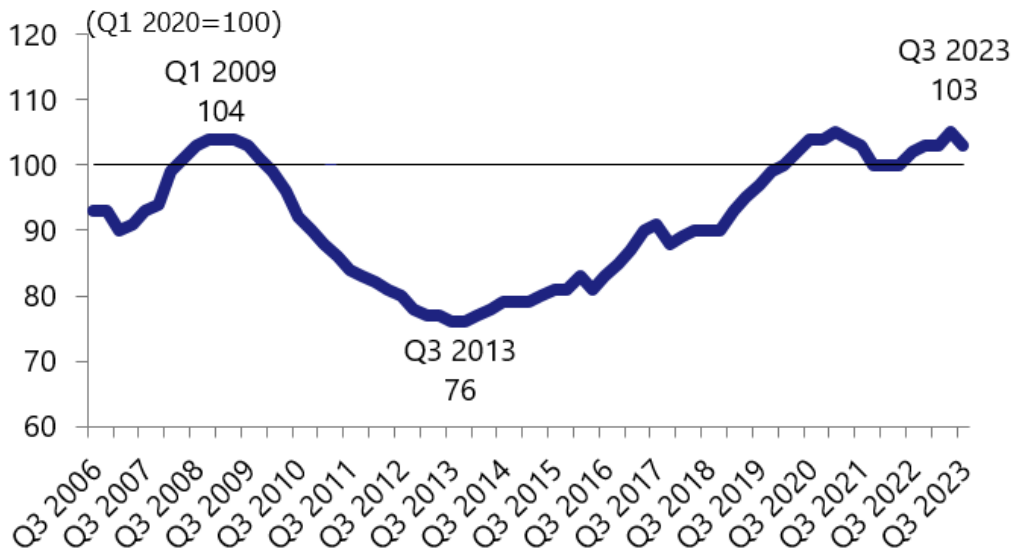
Figure 6: Contract Rent DI



Paying Rent Index at 103

- The paying rent index was **103**, down 2 pt from Q2.
- Although there have been cases where rent rise negotiations were made at the time of lease renewals, the index has remained flat.

Figure 7: Paying Rent Index



	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
Paying Rent Index	102	103	103	105	103

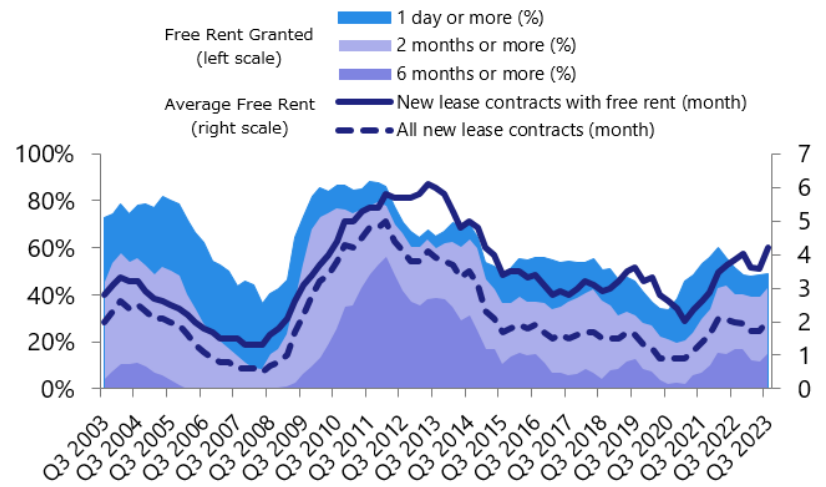
支Paying rent index: A rent index that includes both new and existing lease rents. It lags new contract rent and has less volatility.

For further details, see *Paying Rent Index Is Released*, released October 15, 2015.
<https://www.xymax.co.jp/english/research/images/pdf/20151015.pdf>

Ratio of Free Rent Granted 49.1%, Average Free Rent of All Lease Contracts 2.1 Months

- The **ratio of free rent granted for 1 day or more** was **49.1%**, **up 0.8 pt** from Q2.
- The **ratio of free rent granted for 2 months or more** was **42.9%**, **up 3.6 pt** from Q2.
- The **ratio of free rent granted for 6 months or more** was **14.7%**, **up 3.2 pt** from Q2.
- The **average free rent (month) of all lease contracts** was **2.1 months**, **up 0.4 pt** from Q2.
- The **average free rent (month) of lease contracts with free rent** was **4.2 months**, **up 0.6 pt** from Q2.

Figure 8: Free Rent



		Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
Ratio of Free Rent Granted	1 day +	51.7%	48.5%	48.0%	48.3%	49.1%
	2 mon. +	40.0%	40.3%	39.0%	39.3%	42.9%
	6 mon. +	17.0%	16.7%	12.2%	11.5%	14.7%
Average Free Rent Months	All	2.0	1.9	1.7	1.7	2.1
	w/ FR	3.8	4.0	3.6	3.6	4.2

Free rent: Calculated from the time lag between the start of a new contract and the start of rent payment for the contract.

Ratio of free rent granted: The percentage of contracts with free rent

Average free rent (month): Average number of months of the free rent period

Market Cycle Moving Upper Left, with -0.06 pt Vacancy Rate & +1 pt New Contract Rent Index

- The market cycle **moved to the upper left** as the **vacancy rate** was **down 0.06 pt**, and the **new contract rent index** was **up 1 pt**.
- The current office lease market has not shown a clear direction, having remained in a range for more than a year since the market's downward trend that started in Q3 2020.

Figure 9: Market Cycle



	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
Vacancy Rate	4.02%	3.88%	3.68%	3.71%	3.65%
New Contract Rent Index	91	87	90	89	90

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

Market cycle: The vacancy rate plotted on a quarterly basis on the horizontal scale and the new contract rent index on the vertical scale. It tends to move to the upper left (vacancy down, rent up) when the office market is booming and to the lower right (vacancy up, rent down) when the market is in a recession.

Major Building Completions and Office Relocations

Major building completions

Name	Floors Above ground/ Below ground	Ward	Address	Completion	Total floor area (tsubo)
Toranomon Hills Station Tower	49/4	Minato	2-6-1 Toranomon	Jul 2023	71,583
Tamachi Tower	29/2 (& 1 rooftop)	Minato	5-33-11 Shiba	Sep 2023	34,031
*Azabudai Hills Mori JP Tower (Azabudai Hills Block A)	64/5	Minato	1-6-19 Azabudai	Jun 2023	139,685

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

*Azabudai Hills Mori JP Tower is the building completed in the previous period (Q2 2023) as the completion date was June 30, 2023.

Major office relocations

Company	From	To	Timing	Purpose	Size (tsubo)
sansan	Aoyama Oval bldg <i>Shibuya Ward</i>	Shibuya Sakura Stage SHIBUYA Tower <i>Shibuya Ward</i>	Jul 2024	Consolidating multiple sites	4,200
DENSO	DENSO Shibuya bldg & else <i>Shibuya Ward & else</i>	Shintora Yasuda bldg <i>Minato Ward</i>	May 2024	Consolidating multiple sites	2,800
GOLDWIN	Head Office bldg <i>Shibuya Ward</i>	Aotomo bldg <i>Minato Ward</i>	May 2024	Consolidating multiple sites	1,800

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	8,856 buildings	11,274 contracts	11,274 contracts	542 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 	<ul style="list-style-type: none"> • Increase in volume of vacant space a. Space in existing buildings formerly occupied by tenants b. Total rentable area of new completions • Decrease in volume of vacant space 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.

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	703 contracts	4,596 contracts	53 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"> • 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