

# Briefing Office sector

Q4 2016



## SUMMARY

Rents continue to rise, albeit slowly and in select areas. Overall vacancy rates remain extremely low despite a 3.8ppt increase in Chuo due to the opening of Kyobashi Edogrand.

■ Average estimated passing rents for Grade A office space increased to JPY31,693 per tsubo<sup>1</sup> per month, representing a 0.2% rise quarter-on-quarter (QoQ) and a 1.8% increase year-on-year (YoY).

■ The average Grade A office vacancy rate in Tokyo's central five wards softened marginally by 0.3 percentage points (ppts) QoQ to 1.9%, but strengthened by 0.3ppts YoY.

■ The estimated passing rent for large-scale Grade B office space

reached JPY24,147 per tsubo, edging up by 0.4% QoQ and 1.6% YoY.

■ The average vacancy rate for large-scale Grade B office properties marginally increased by 0.1ppts QoQ to 2.1%, but decreased by 0.1ppts over the same period in the previous year.

■ Although the opening of Kyobashi Edogrand caused an increase in vacancy rate in Chuo, the softening should be temporary as the space is expected to be quickly absorbed.

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“Q4/2016 Grade A and B office rents in the central five wards continue to improve, albeit at a slowing pace. Despite a slight softening, vacancy rates remain low in Tokyo, reflecting sound demand for quality properties.” Savills Research  
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<sup>1</sup> 1 tsubo = 3.306 sq m or 35.583 sq ft

## → Newly completed project

On 25 November, Kyobashi Edogrand opened as a culmination of the redevelopment project in the Kyobashi area, which took 15 years from its conception. The B3/32F mixed-use building is located five minutes from Tokyo Station and features 66,600 sq m of rentable office space, as well as over 30 restaurants and retail shops. Furthermore, the MEIDI-YA Kyobashi Building has been renovated and incorporated as an integral part of the development to highlight the area's local history.

## Grade A offices

The average Grade A<sup>2</sup> vacancy rate in the central five wards (C5W) tightened 0.1ppts YoY to 1.9%. However, after six consecutive decreases, the average Grade A office vacancy rate loosened by 0.3ppts QoQ from 1.6% in Q3/2016. As discussed later in this report, Chuo contributed to the increase due to the opening of Kyobashi Edogrand.

The estimated passing rent for Grade A office space increased to JPY31,693 per tsubo per month, representing a 1.8% increase YoY and a 0.2% increase QoQ, continuing its steady upward trend. However, as new supply continues to enter the market and tenants remain price sensitive, rental growth, if any, is anticipated to continue at the current crawling pace in the near term.

## Large-scale Grade B offices

The average vacancy rate for large-scale Grade B<sup>3</sup> office properties has increased by 0.1ppts QoQ to 2.1% as of Q4/2016, but decreased by 0.1ppts YoY. The average rate for Grade B property has been below 2.5% for five consecutive quarters, reflecting sound office demand.

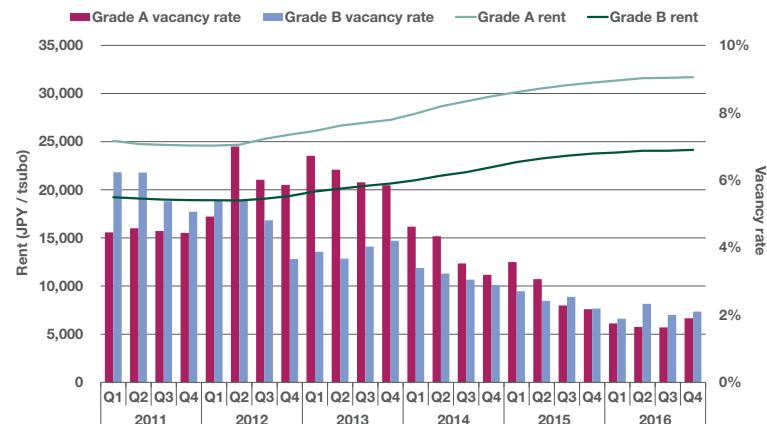
Rental growth is also slowing in Grade B property. The average monthly rent for large-scale Grade B properties stood at JPY24,147 per tsubo in the fourth quarter. This represents a QoQ gain of 0.4% and a YoY gain of 1.6%.

<sup>2</sup> Grade A office refers to buildings located in the central five wards of Tokyo with a GFA of 9,000 tsubo (30,000 sq m) or larger and a building age of less than 15 years.

<sup>3</sup> Large-scale Grade B office refers to buildings with a GFA of 4,500 tsubo (15,000 sq m) and a building age of less than 25 years. Some buildings are included that do not fit this definition.

GRAPH 1

## Average office rents and vacancy rates in Tokyo's central five wards\*, Q1/2011–Q4/2016

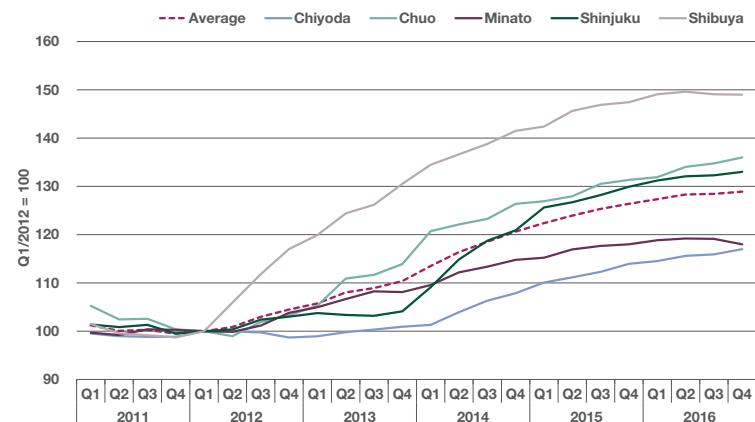


Source: Savills Research & Consultancy

\* Tokyo's central five wards (C5W) are comprised of Chiyoda, Chuo, Minato, Shibuya and Shinjuku.

GRAPH 2

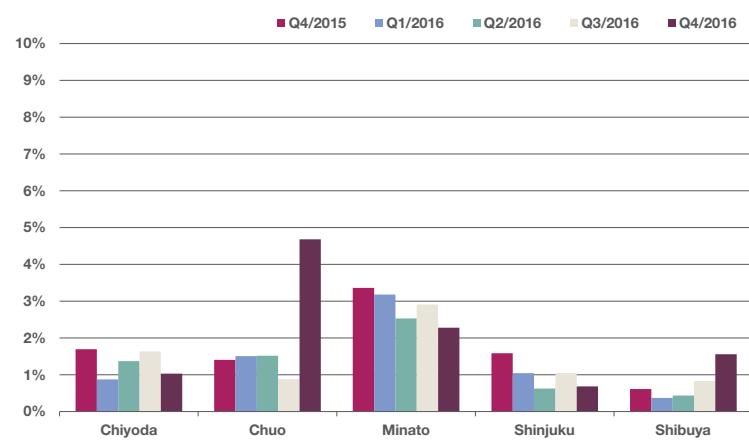
## Grade A office rental index by ward, Q1/2011–Q4/2016



Source: Savills Research & Consultancy

GRAPH 3

## Average Grade A office vacancy rates by ward, Q4/2015–Q4/2016



Source: Savills Research & Consultancy

## → Grade A rents and vacancy rates by ward Chiyoda

The Grade A vacancy rate in Chiyoda was 1.0% in Q4/2016, a tightening of 0.6ppcts QoQ and 0.7ppcts YoY. The average Grade A passing rent in Chiyoda stood at JPY39,104 per tsubo, increasing by 0.3% QoQ and 2.1% YoY.

Deloitte Tohmatsu will consolidate its various subsidiaries into a new building, tentatively called the Marunouchi 3-2 Project. The project is scheduled to be completed in October 2018 and Deloitte is expected to occupy about 9,000 tsubo in the building.

### Chuo

Chuo's average Grade A vacancy rate increased by 3.8ppcts QoQ to 4.7% in Q4/2016 due to the opening of Kyobashi Edogrand. The building opened in late November and its vacancy rate is approximately 45% or lower. Given the property's premier location near Tokyo Station, however, the space should be quickly absorbed.

Rents in Chuo strengthened by the largest margins, recording growth of 1.1% QoQ and 3.7% YoY. The average Grade A passing rent in Chuo stood at JPY29,519 per tsubo, still the second lowest in the C5W.

Total Insurance Service plans to relocate its headquarters from the

TABLE 1  
Tenant origins vs destinations, Q4/2016

Origin						Total arrivals	Destination
Chiyoda	Chuo	Minato	Shibuya	Shinjuku	Other		
6	5	15	5	1	6		
↓	↓	↓	↓	↓	↓		
3		2				5	Chiyoda
1		1			3	8	Chuo
2	3	9	1	1	2	16	Minato
	1		2			2	Shibuya
			1		1	2	Shinjuku
	1	3	1			5	Other

Source: Savills Research & Consultancy, Nikkei RE

TIS Kasuga Building in Bunkyo to Kyobashi Edogrand in early 2017. The company will lease about 820 tsubo in the building.

### Minato

The average Grade A vacancy rate in Minato tightened by 0.6ppcts QoQ to 2.3% in Q4/2016, following temporary softness in Q3/2016. This figure represents an improvement of 1.1ppcts YoY. The average Grade A office rent in Minato weakened slightly by 0.4% QoQ to JPY30,061 per tsubo, but rose by 0.5% YoY.

As illustrated in Table 1, Minato continues to see strong leasing activity, though a majority of relocations

take place within the ward. Several companies are relocating to Minato from outside, including Tobishima and Monex. Tobishima will move from Kanagawa Science Park R&D to the W Building and is expected to occupy 1,500 tsubo. Monex will move from the Kojimachi Odori Building in Chiyoda to the Ark Mori Building, taking up 1,300 tsubo.

### Shibuya

Shibuya's average Grade A vacancy rate loosened by 0.8ppcts QoQ to 1.6% as Actelion Pharmaceuticals Japan moved out of Ebisu Prime Square. Grade A rents declined by 0.5% QoQ to JPY31,692 per tsubo, but increased by 0.6% YoY in Shibuya.

TABLE 2  
Notable office leasing transactions, Q4/2016

Company	Business sector	Type	Former/current location	New location	Approximate space	
					tsubo	sq m
Deloitte Tohmatsu	Consulting	Subsidiary consolidation	Various	Marunouchi 3-2 Project	9,000	29,700
			Chiyoda	Chiyoda		
Adastria	Apparel	HQ relocation/ subsidiary consolidation	Various	Shibuya Hikarie	3,350	11,100
			Chiyoda	Shibuya		
Nikkei Business Publications	Publications	HQ relocation	NBF Platinum Tower	Nikkei Denpa Kaikan	2,800	9,400
			Minato	Minato		
Tobishima	Construction	HQ relocation	Kanagawa Science Park R&D	W Building	1,500	5,000
			Kanagawa Prefecture	Minato		
Monex	Finance	HQ relocation	Kojimachi Odori Building	Ark Mori Building	1,300	4,300
			Chiyoda	Minato		

Source: Savills Research & Consultancy, Nikkei RE

Adastria, an apparel company operating brands such as Global Work and Lowrys Farm, will occupy 3,350 tsubo in Shibuya Hikarie and 650 tsubo in the Shibuya Minami Tokyu Building. The company's headquarters is currently located in GranTokyo South Tower with sub-offices situated in neighbouring buildings in Chiyoda. The company will complete the relocation to Shibuya by June 2017.

#### Shinjuku

In Q4/2016, Shinjuku's average Grade A vacancy rate tightened by 0.4ppts QoQ to 0.7%, the lowest level in the C5W. Grade A rents in Shinjuku climbed by 0.5% QoQ to reach JPY28,091 per tsubo, representing a YoY increase of 2.3%.

Goodwin, an insurance brokerage firm, and Set Software, an IT firm, plan to relocate their headquarters to

the Shinjuku Sumitomo Building and the Nishi-Shinjuku Mitsui Building, respectively. Both companies will take up about 400 tsubo in the new buildings.

Savills monitors rents and vacancy levels at more than 450 buildings located in Tokyo's central five wards with a GFA of 3,000 tsubo (10,000 sq m) or above. Unlike similar market information issued by other research institutions, the rental data provided relates to estimated passing rents, inclusive of common area management fees, as opposed to asking rents. Meanwhile, vacancy figures reflect current vacant space without the inclusion of 'expected' vacancy, or that reported prior to tenants vacating their premises. As a result, benchmark figures, particularly vacancy rates, tend to be lower than other market indices. ■

## OUTLOOK

### The prospects for the market

Rental growth in Tokyo has extended for 18 consecutive quarters as select properties continue to increase asking rents, albeit at a slower pace. Vacancy rates remain extremely low despite a temporary softening in Chuo, indicating that sound office demand exists in the city. However, tenants remain price-sensitive in light of an uncertain economic outlook and increasing supply. Market growth is not expected to pick up in the near term.

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