



Office Leasing



Recovery gathers momentum

Optimism is growing with firm demand and moderate supply in 2024.

- Office markets appear to maintain positive momentum, with rents experiencing sustained rental growth. Vacancies also continue to tighten overall.
- Average Grade A office rents in the C5W increased by 1.1% quarter-on-quarter (QoQ) and 1.9% year-on-year (YoY) to JPY33,000 per tsubo per month.
- The average Grade A office vacancy rate in the C5W tightened by 0.1 percentage points (ppts) QoQ but rose by 0.3ppts YoY to 2.9%.
- Average large-scale Grade B office rents saw a modest 0.5% QoQ increment, translating to a steady 2.1% YoY increase to JPY25,012 per tsubo per month.
- Vacancy rates in the Grade B market tightened moderately by 0.8ppts QoQ and 1.2ppts YoY to 2.6%.
- Office markets should continue to see stability in 2024 given the limited supply of new offices, but a significant influx of supply in 2025 may lead to some volatility.
- Mixed-use developments are becoming the standard, offering versatility to meet the evolving demands of tenants, diversifying revenue streams, as well as boosting the value of office spaces.

“The Tokyo office market has seen consecutive quarters of improvement, suggesting that the market has firmly transitioned to a recovery phase. Firm office demand levels are supported by moderate amounts of new supply in 2024. Looking ahead, 2025 will bring significant new supply, but pre-leasing appears encouraging. Bifurcation is expected to persist, largely influenced by location and age.”

SAVILLS RESEARCH & CONSULTANCY

Savills team

Please contact us for further information

JAPAN

Jon Salyards
Managing Director,
Institutional Investment
Advisory
+81 3 4330 3266
jsalyards@savills.co.jp

Andy Hurfurt
Managing Director,
Institutional Investment
Advisory
+81 3 4330 3328
ahurfurt@savills.co.jp

RESEARCH

Tetsuya Kaneko
Managing Director,
Head of Research &
Consultancy, Japan
+81 3 4330 3103
tkaneko@savills.co.jp

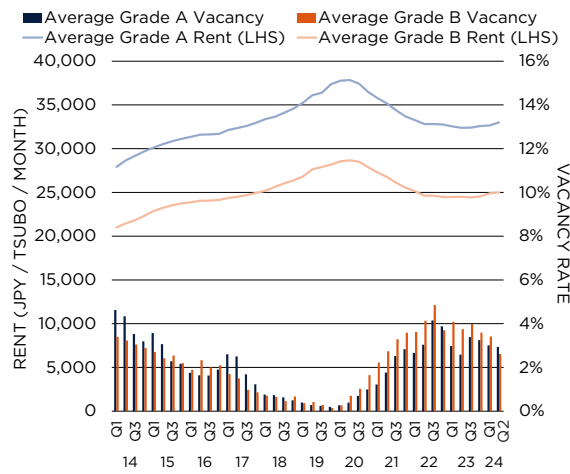
Bryan Kuek
Manager, Research &
Consultancy, Japan
+81 3 4330 3104
bkuek@savills.co.jp

Simon Smith
Regional Head of
Research & Consultancy,
Asia Pacific
+852 2842 4573
ssmith@savills.asia

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

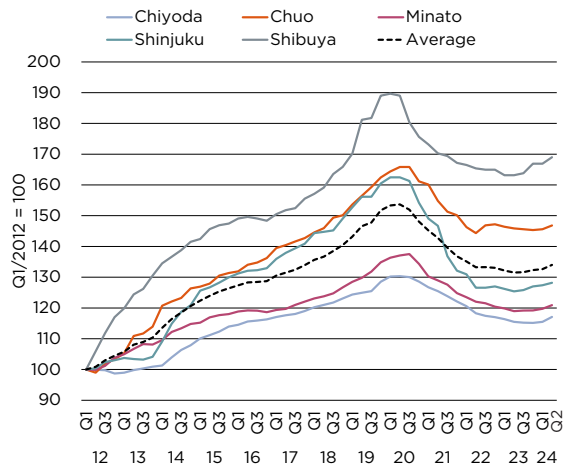


GRAPH 1: Office Rents and Vacancy in Tokyo's C5W*, 2014 to Q2/2024



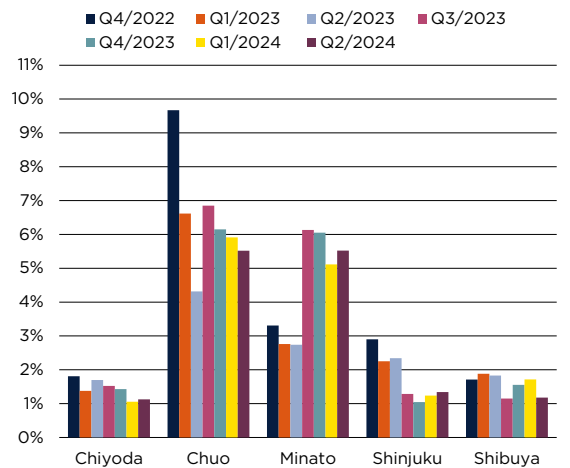
Source Savills Research & Consultancy
* Chiyoda, Chuo, Minato, Shibuya, and Shinjuku

GRAPH 2: Grade A Office Rental Index by Ward, 2012 to Q2/2024



Source Savills Research & Consultancy

GRAPH 3: Grade A Office Vacancy by Ward, Q4/2022 to Q2/2024



Source Savills Research & Consultancy

GRADE A OFFICE

The Tokyo Grade A office market continues on a growth trajectory, posting its fourth consecutive quarter rental increment, while vacancy has tightened over three consecutive quarters as of Q2/2024, an indication of the ongoing early stages of recovery. Average rents in the central five wards (C5W) strengthened across all constituent wards on both a quarterly and annual basis, climbing by an average 1.1% QoQ and 1.9% YoY to JPY33,000 per tsubo. Overall, rental growth was spread out fairly evenly across the C5W.

The average vacancy rate for Grade A offices in the C5W decreased nominally by 0.1ppts QoQ to 2.9%. Shibuya and Chuo saw vacancy rates decrease by 0.5ppts QoQ to 1.2% and 0.4ppts QoQ to 5.5%, while vacancy in Minato and Shinjuku increased by 0.4 ppts and 0.1ppts QoQ, respectively. Elsewhere, Chiyoda remained flat over the quarter, staying the lowest in the C5W. However, given the lingering flexible work arrangements, full recovery to the ultra-tight pre-pandemic levels will likely take some more time.

Strong corporate profits have contributed to greater levels of floor space expansion to accommodate proactive hiring activity and growing headcounts, which in turn has driven demand for office space. Furthermore, many companies have capitalised on the comparatively looser office market, implementing long-overdue relocations and expansions in accordance with new office requirements and layouts. Moreover, the new office supply forecast in 2024 will be relatively modest compared to previous years, which should provide more room for the absorption of existing vacancies from last year's large new supply as well as secondary vacancies. All in all, this raises prospects for steady recovery over the rest of the year. Nevertheless, a significant amount of office supply is expected in 2025, and competition for tenants is likely to intensify, especially for landlords with large existing vacancies and older offices in less accessible locations.

LARGE-SCALE GRADE B OFFICES

The large-scale Grade B market continues to recover along with the Grade A market, with average rents rising by 0.5% QoQ and 2.1% YoY to JPY25,012 per tsubo. Chuo and Shinjuku saw the largest rental growth at 1.0% QoQ and 0.8% QoQ, respectively. Meanwhile, Shibuya saw rents increase 0.3% QoQ, while Chiyoda and Minato saw mild upticks of 0.1% QoQ. Similar to the Grade A market, bifurcation persists within the surveyed submarkets, with modern offices in prime locations generally continuing to experience rental increments with virtually no vacancies, while older offices in less

accessible areas continue to experience persistent elevated vacancies.

Average Grade B vacancy tightened for the third consecutive quarter, dropping by 0.8ppts QoQ to 2.6%. Minato and Chuo, which have the highest vacancy rates, saw the greatest tightening by 1.4ppts QoQ and 1.3ppts QoQ, respectively. Grade B office vacancy in Shibuya fell below the 1% mark for the first time since the onset of the pandemic, tightening by 1.2ppts QoQ to 0.3%. Elsewhere, Shinjuku recorded a modest decrease of 0.4ppts QoQ while Chiyoda increased slightly by 0.3ppts QoQ.

In March 2024, a survey conducted by the Tokyo Metropolitan Government revealed a declining trend in remote work implementation by companies, with the proportion decreasing from 63% in March 2022 to 52% and 43% in the same month of 2023, and 2024, respectively. Furthermore, smaller companies, particularly SMEs which are typically Grade B tenants, are even less inclined to implement remote work options compared to larger companies, and this trend should theoretically drive more demand in the Grade B office market. Overall, Japanese corporations have been performing well, and the competitive and tight labour market should incentivise more companies to prioritise quality workspaces to attain a better edge in talent acquisition and retention. For a more in-depth overview of the Large-scale Grade B offices, please refer to our [“Tokyo Grade B Office”](#) report.

GRADE A RENTS AND VACANCY RATES BY WARD
Chiyoda

In Q2/2024, average rents in Chiyoda strengthened by 1.4% on both quarterly and annually basis, reaching JPY39,363 per tsubo, and average vacancy remained unchanged over the quarter, holding steady at 1.1%. Chiyoda is known as the premier business district, home to many leading domestic and international companies, and maintains its leading position with the highest rents and tightest vacancy rates among the C5W.

Mitsubishi HC Capital announced its relocation of its headquarters to Torch Tower, which is slated to become Japan's tallest building upon its scheduled completion in March 2028. The company aims to consolidate its dispersed offices, leasing 6,000 tsubo of office spaces across three floors of the new building, to enhance group communication and synergy. Another notable impending office movement is Sompo Himawari Life Insurance, which plans to relocate its headquarters to the Sompo Japan Kasumigaseki Building between July and August 2024, leasing approximately 5,000 tsubo, occupying nearly all floors of the building.

Chuo

Chuo saw rents climb by 0.8% QoQ and 0.7% YoY to JPY31,809 per tsubo. Average vacancy continues to improve, tightening by 0.4ppts QoQ to 5.5%. Vacancies in prime areas around Tokyo station remain limited, and rents appear stable. In addition, the upcoming TODA BUILDING, slated for completion in October 2024, is rumoured to be mostly pre-leased, with notable tenants including the building developer, TODA CORPORATION, leasing 5,000 tsubo, Cosmo Oil securing 2,900 tsubo, and Ajinomoto expressing interest in leasing 5,000 tsubo, among others. Meanwhile, in the Tokyo bay area, particularly in Harumi, rents have been creeping up slightly over the past quarter, demonstrating slight growth in demand despite persistent vacancies. However, bifurcation in Chuo Ward remains prevalent, as modern properties with desirable amenities in prime locations experience tight vacancies while older offices in the less accessible areas continue to face difficulties in finding tenants.

Looking ahead, Toei announced the relocation of its headquarters to Kyobashi Edogrand, reportedly leasing an approximate 1,500 tsubo of office space in 2025, while its current headquarters, Toei Hall, is set to be redeveloped. Elsewhere, Hochiki will relocate its three headquarters, two from Shinagawa ward and one from Minato ward into the tentatively named Nihombashi-Honcho 1-Chome 3-Ban Project, a wooden office building in April 2027. The company plans to lease an estimated 1,400 tsubo of office space.

Minato

Minato rents increased by 1.0% QoQ and 1.6% YoY to JPY30,636 per tsubo while vacancy loosened slightly by 0.4ppts QoQ to 5.5%. The limited number of new completions in 2024 should result in improvements in average rents and occupancy for the remainder of the year. In addition, upcoming completions in Minato are also garnering interest. That said, rental growth is likely to remain subdued for the time being due to elevated vacancy rates.

Mitsui Knowledge Industry, a subsidiary of Mitsui & Co., will relocate its headquarters to the tentatively named Minami-Aoyama 3-Chome Project, a mixed-use building slated for completion in March 2026, reportedly leasing around 3,300 tsubo of office space. Meanwhile, Maruha Nichiro will relocate its head office to THE LINKPILLAR I SOUTH in TAKANAWA GATEWAY CITY in February 2026, leasing approximately 3,000 tsubo of floor area. Elsewhere, Iwatani intends to sell its current headquarters building, completed in 1972, and relocate to the newer Nippon Life Hamamatsucho Crea Tower, leasing a total of 2,400 tsubo of floor area, with the company aiming to reduce office space by approximately 30% to streamline operations and improve the office environment.

Shibuya

Shibuya's average rents experienced a moderate uptick of 1.3% QoQ and a significant increase of 3.6% YoY, reaching JPY36,109 per tsubo. Additionally, vacancy tightened by 0.5ppts QoQ to 1.2%. Shibuya has consistently maintained

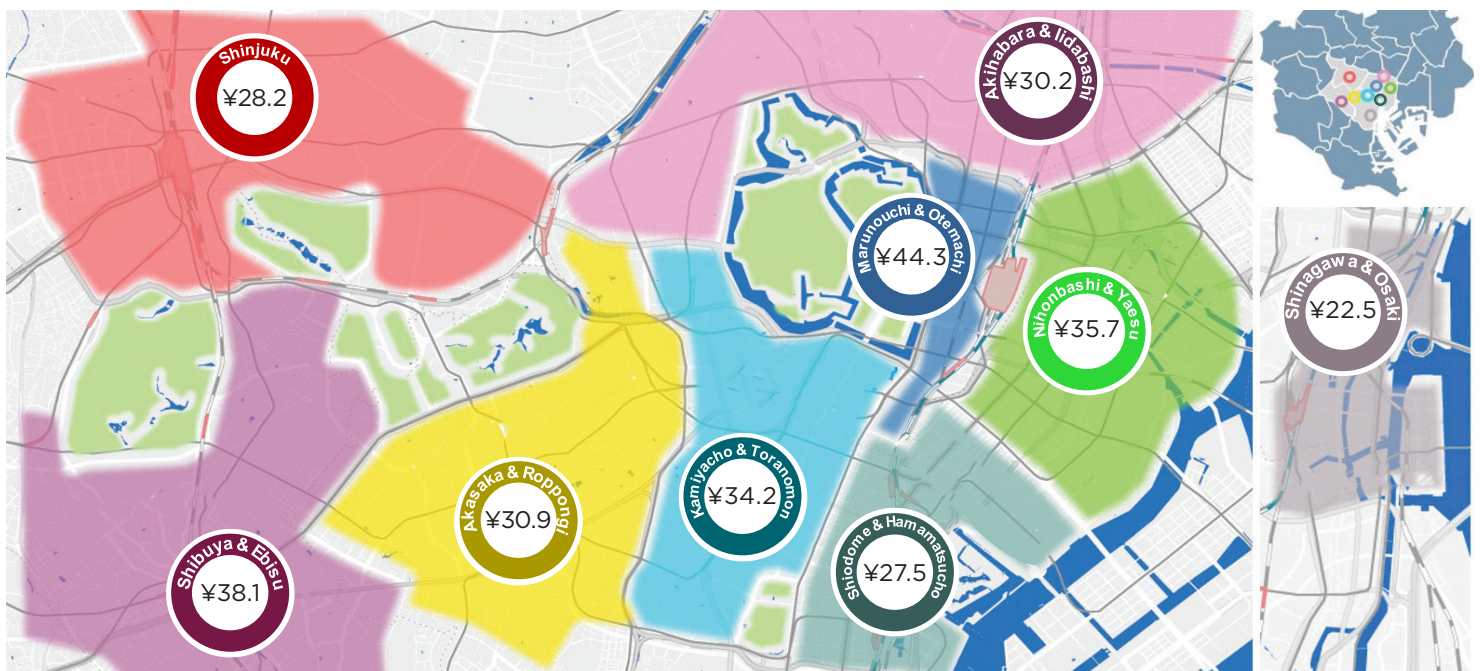
low vacancy rates, with a majority of prime office buildings fully occupied. With limited new office supply expected in the near future, the office market in the ward should remain stable.

Secom Trust Systems showed interest in relocating its headquarters from Shinjuku ward to Daiwa Sasazuka Tower, aiming to lease about 1,000 tsubo of office space. Additionally, WeWork aims to expand its office space in Shibuya Scramble Square by leasing the entire 42nd floor, adding approximately 900 tsubo to its current 5,200 tsubo of office space. Elsewhere, Sprix and Ambition DX Holdings are seeking to increase their office space by relocating to Shibuya Sakura Stage Shibuya Tower and Yebisu Garden Place Tower, respectively, leasing around 800 tsubo of office space each.

Shinjuku

Average rents in Shinjuku climbed by 0.6% QoQ and 2.2% YoY to JPY27,083 per tsubo, while vacancy loosened marginally by 0.1ppts QoQ to 1.3%. Demand for office spaces from domestic companies in Shinjuku has been firm. Similar to the Shibuya submarket, Shinjuku, which has seen only a small amount of recent new supply, is also expected to experience limited new office developments in the near future. The next major addition, the Meiji Yasuda Seimei Building, is slated for completion in May 2026 and has already attracted interest from potential tenants for about 30% of its space. With the second lowest average level of vacancy behind Chiyoda, Shinjuku is expected to remain strong for the near term.

MAP 1: Average Rents Per Tsubo in Selected Submarkets, Q2/2024



Source Savills Research & Consultancy
Grade A Office, average passing rent + CAM per tsubo per month in thousand JPY. Coloured areas for illustrative purposes only.

TABLE 1: Tenant Relocations, Q2/2024

ORIGIN						DESTINATION	
Chiyoda	Chuo	Minato	Shibuya	Shinjuku	Other		
7	8	20	8	6	20		
↓	↓	↓	↓	↓	↓	⇒	
2		1		1	1		5
	6	1			1		8
4	2	14	1	1	5		27
		2	6	1	1		10
		1		1			2
1		1	1	2	12		17

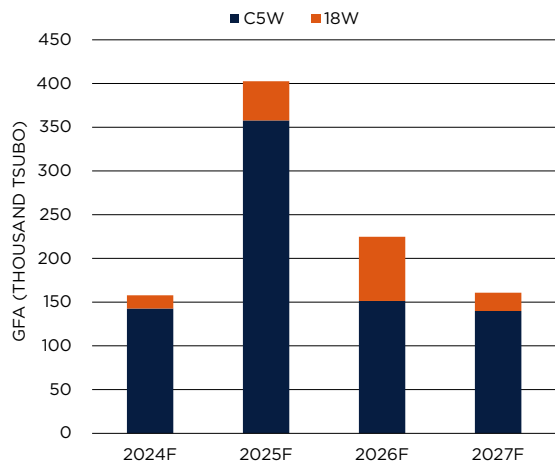
Source Nikkei RE, Savills Research & Consultancy

TABLE 2: Notable Office Leasing Transactions, Q2/2024

COMPANY	BUSINESS SECTOR	TYPE	FORMER/CURRENT LOCATION	NEW LOCATION	APPROXIMATE SPACE	
					TSUBO	SQ M
Mitsubishi HC Capital	Financial Services	HQ Relocation & Office Consolidation	Multiple	Torch Tower	6,000	19,800
			Multiple	Chiyoda		
Sompo Himawari Life Insurance	Life Insurance	HQ Relocation	Sumitomo Fudosan Shinjuku Central Park Building	Sompo Japan Kasumigaseki Building	5,000	16,500
			Shinjuku	Chiyoda		
PayPay	Payment Services	HQ Relocation & Office Consolidation	Multiple	Yotsuya Tower	5,000	16,500
			Multiple	Shinjuku		
Ajinomoto	Food and Biotechnology	HQ Relocation	Sanei Building Annex	TODA BUILDING	3,600	11,900
			Chuo	Chuo		
Mitsui Knowledge Industry	Information Technology	HQ Relocation	Atago Green Hills Mori Tower	Minami-Aoyama 3-Chome Project (Tentatively named)	3,340	11,000
			Minato	Minato		

Source Nikkei RE, Savills Research & Consultancy

GRAPH 4: Office Supply (GFA) Estimates* for the C5W and the 18W, 2024F to 2027F



Source Savills Research & Consultancy
*Adjusted GFA figures based on estimated office floor space.

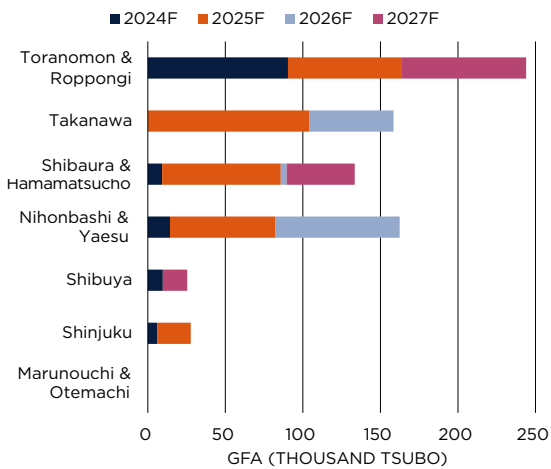
Yotsuya Tower will see a significant office movement in early 2025, with PayPay intending to replace LY Corporation by leasing 5,000 tsubo of office space from the 21st to the 30th floor of the building. Meanwhile, DesignOne Japan will relocate its headquarters to the Shinjuku East Square Building between August and September 2024, leasing an estimated 400 tsubo of office space together with its subsidiary, Deech.

TOKYO OFFICE SUPPLY

The Tokyo office market demonstrated notable resilience, successfully absorbing most of the new office space in 2023. Initial concerns regarding the large supply have been mitigated by strong corporate performance and the return to offices, which have driven demand for the new additions. The upcoming new supply in 2024 is relatively limited (Graph 4) which should allow the market to continue its positive trajectory, though the office supply

forecast in 2025 will be large, particularly in the Takanawa submarket (Graph 5). Despite some observers' expectations of a potential economic slowdown, optimism prevails in the Tokyo office market, fuelled by sound tenant demand, hinting at further market improvements ahead, discussed in greater detail in our spotlight report "[Tokyo Office Supply 2024](#)".

The supply of new office space in 2024 is expected to be moderate, which should provide the market with some breathing room to absorb existing vacant space and facilitate further growth. The sound leasing demand has been evidenced by smooth pre-leasing activities for many incoming properties. For instance, SHIBUYA AXSH in Shibuya has seen strong pre-leasing activity, demonstrating the high level of demand for modern office spaces. The shift in tenant preferences towards modern offices, strategically located close to metro stations and public transport

GRAPH 5: Office Supply (GFA) Estimates* by Submarket, 2024F to 2027F

Source Savills Research & Consultancy

*Adjusted GFA figures based on estimated office floor space.

hubs, with modern amenities supporting communication, and strong ESG specifications, among others, has led to many tenants being willing to pay a premium for such features. Conversely, older and poorly located offices, especially in some areas of Minato and Chuo, continue to struggle. These challenges may be exacerbated by the large incoming supply in these wards over the coming years.

Looking forward, several significant projects are in the pipeline, set to redefine the Tokyo office market landscape. In 2025, the Takanawa submarket will emerge as a competitive office market with the completion of TAKANAWA GATEWAY CITY project. This mixed-use development, featuring office space, retail, residential units, and an international school, has already garnered strong interest securing large tenants like KDDI. The trend towards mixed-use developments has been increasingly popular and has become a defining standard for larger-scale projects. Mixed-use buildings offer versatility to meet the evolving demands of tenants, and diversify revenue streams, and hedge against unforeseen circumstances. Furthermore, the mixed-use development trend tends to reshape the atmosphere of these buildings and their surrounding areas, creating a city-within-a-city ambiance, ultimately boosting the value of office spaces, and driving up demand for floor space among businesses within these

environments. Elsewhere, other notable projects slated for completion in 2025 include the Yaesu 1-Chome Project in Nihonbashi & Yaesu and the Shibaura 1-Chome Project South, both of which are already mostly pre-leased, although the former is likely to face a delay in completion until 2026 due to an on-site accident. In 2026, Nihonbashi 1-Chome Naka C Project, and the second phase of TAKANAWA GATEWAY CITY, THE LINKPILLAR II is scheduled for completion. Additionally, the redevelopment of the Oimachi station front area will deliver mixed-use towers and public green spaces, further transforming the Takanawa and Shinagawa & Osaki submarkets.

Looking further ahead to 2028, the Marunouchi & Otemachi submarket will welcome the iconic Torch Tower, the tallest office building in Japan, as part of the Tokyo Torch project. This development is expected to transform the northern edge of Tokyo station and attract high-profile tenants. Other significant projects include the redevelopment of the Tokio Marine Nichido Building and the head office of MUFG, which will add premium modern office space to the market.

Despite the optimistic outlook, several risk factors could impact the market's stability. Labour shortages, new regulations on overtime construction work, and inflation may cause delays in delivering new supply and increase construction costs. These factors could also affect tenant relocations, with some companies potentially postponing office moves due to elevated initial moving costs. At the same time, these delays might offer a silver lining by subtly balancing supply and demand.

Overall, the Tokyo office market is primed for further growth in 2024, driven by moderate supply and sound demand. The shift towards mixed-use developments, coupled with robust corporate performance, is expected to support rental growth and stabilise vacancy rates. While challenges remain, the overall outlook for the Tokyo office market in 2024 and beyond is optimistic.

OUTLOOK

The Tokyo Grade A and large-scale Grade B office markets continue to recover in Q2/2024, with both average rents and occupancy experiencing steady improvements from the previous trough seen between late 2022 and late 2023. The large supply of office space in 2023 was uneventfully absorbed, owing to strong corporate performance and the increasing return to offices. With limited supply in 2024, the Tokyo office market should continue to perform well for the remainder of the year.

Companies have been gradually phasing out flexible work arrangements since 2022, and with Japan's work culture generally advocating in-person attendance, this trend is likely to continue. However, some flexible work arrangements are likely to linger, driving demand for offices equipped with private booths and modern meetings rooms to facilitate seamless communication. Additionally, companies are also increasingly enticed by larger and high-quality offices to gain an edge in talent acquisition in a competitive labour market. Therefore, the bifurcation between modern buildings in prime locations and older, less accessible buildings with poor amenities is likely to remain or even widen for the time being.

Looking ahead, the significant influx of new office supply forecast for 2025 may introduce some volatility to the market but should not be a major concern given the overall sound demand, with greater confidence stemming from the uneventful uptake of the large supply in 2023 as well as encouraging pre-leasing activities already observed for the incoming supply. Despite potential challenges such as labour shortages and construction cost inflation, the overall outlook for the Tokyo office market remains optimistic backed by increasing demand. Projecting further ahead, notable completions such as the TAKANAWA GATEWAY CITY project in 2025 and the iconic Torch Tower in 2028 are set to transform the office landscape in Tokyo, driving further demand.