

May 23, 2024

2024 Survey of Large-scale Office Building Market in Tokyo's 23 Core Cities

The average annual supply of large office buildings in Tokyo's 23 core cities over the five-year period to 2028 is expected to be lower than the historical annual average between 1986 and 2023.

The absorption volume in 2023 rebounded significantly to surpass the pre-pandemic (2000–2019) annual average and the vacancy rate fell to 5.8%, the first decline since 2019.

General Trends in Supply

- The annual average supply over the next five years is expected to fall below the annual average in recent decades (1986–2023), indicating that changes in supply volume will impact the office market less than in the past.
- Properties with an office-floor space of 100,000 m² or more will account for a high proportion of supply over the five-year period to 2028.
- Tokyo's five central cities—Chiyoda, Chuo, Minato, Shinjuku and Shibuya—are expected to account for 83% of the average annual supply through 2028. Supply will increase particularly in Nihonbashi/Yaesu/Kyobashi, Akasaka/Roppongi and Shinagawa, where large-scale redevelopments are underway.

General Trends in Demand

- The absorption volume in Tokyo's 23 core cities in 2023 increased significantly to exceed the pre-pandemic (2000–2019) average and the vacancy rate fell to 5.8%, the first decline in four years.
- The vacancy rate rose in major business areas, but is expected to decline from 2024 onward, supported by stronger demand for better locations and higher-grade buildings.

■ Survey Framework

Surveyed area: Tokyo's 23 core cities

Target: Office buildings with a gross floor space of at least 10,000 m² and fully constructed by 1986 or later.

Supply volume is based on publicly available information as well as on-site and interview-based research through early May 2024.

Gross office-floor space includes space owned and used by the same company, but not non-office space (retail, residential, hotels, etc.).

1-1 General Trends in Supply Volume

- The average annual supply of large office buildings in Tokyo's 23 core cities over the next five years is expected to be lower than the historical annual average in recent decades (1986–2023).
- The modest change in supply volume is likely to have a limited impact on the office market compared to the past.

The supply of large office buildings in the 23 core cities of Tokyo over the next five years (2024–2028) is expected to average 820,000 m², down from the annual average of 1,030,000 m² between 1986 and 2023 (Figure 1). However, the forecasted low supply is expected to remain stable and have only a limited impact on the office market, judging from previous instances when individual years of high supply, such as 1994 (1,250,000 m²), 2003 (1,260,000 m²), 2012 (1,040,000 m²) and 2020 (1,030,000 m²), were followed by five-year periods of relatively stable low-supply volume.

Figure 1: Large Office Building Supply Trends in Tokyo's 23 Core Cities

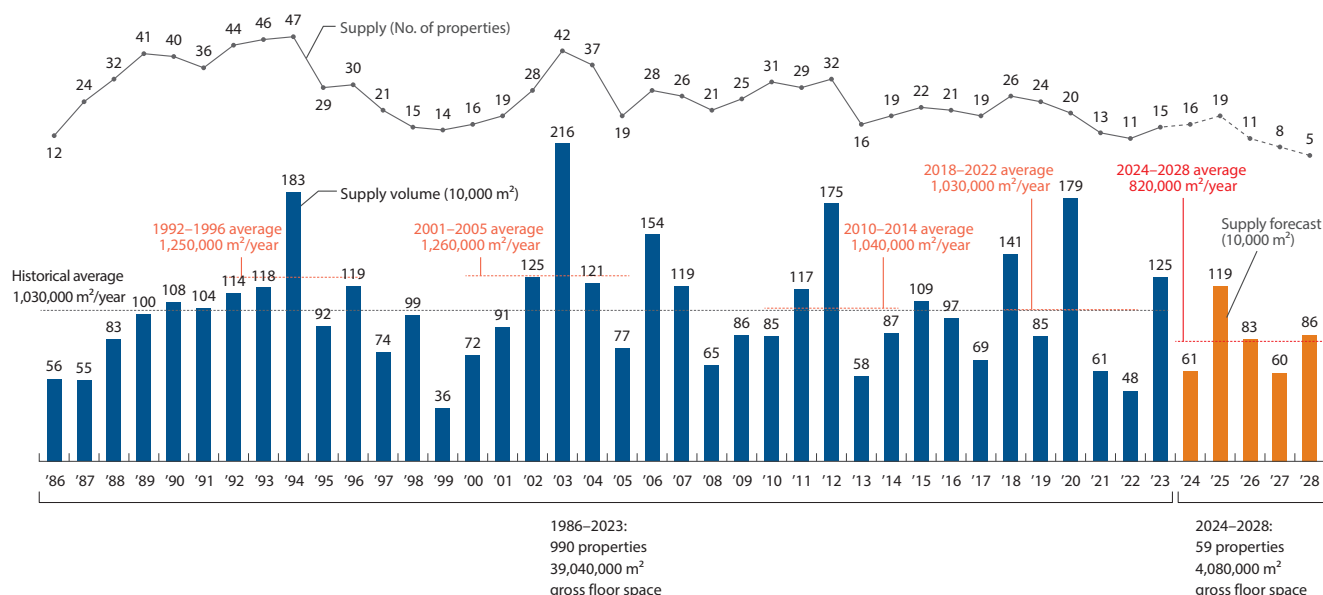
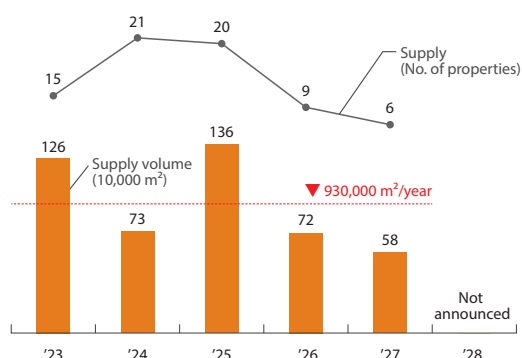


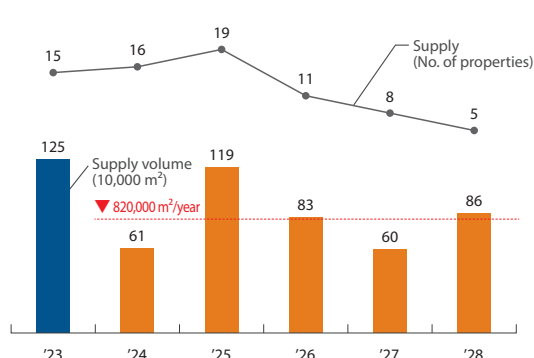
Figure 2 compares the new five-year supply forecast to the forecast in last year's survey (released on May 25, 2023). Forecasted supply has decreased in 2024 and 2025 and increased in 2026, due mainly to revised construction-completion dates.

Figure 2: Comparison of Current and Previous 5-year Trends in Large Office Building Supply Volume

May 2023 Market Trend Survey



May 2024 Market Trend Survey



1-2 Supply Volume Trends by Office Building Scale

- Average supply per property in 2023 was well above the most recent 10-year average.
- Over the long term, the average supply per property will continue to increase, and office buildings will continue to grow in size.

Figure 3 shows trends in the average annual supply per property. In 2023, the average was 84,000 m², well above the 48,000 m² average over the previous 10 years (2013–2022). In the early 1990s, averages were generally between 20,000 m² and 30,000 m², but in recent years it has become more common for properties to exceed 50,000 m². The approximation line shows a clear increase in the size of available office buildings.

Figure 3: Trends in Average Supply per Property

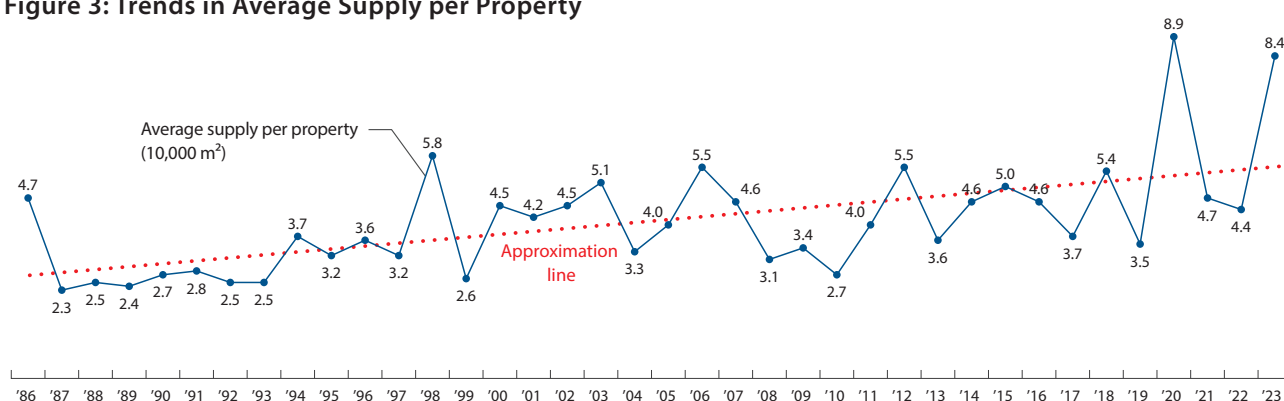
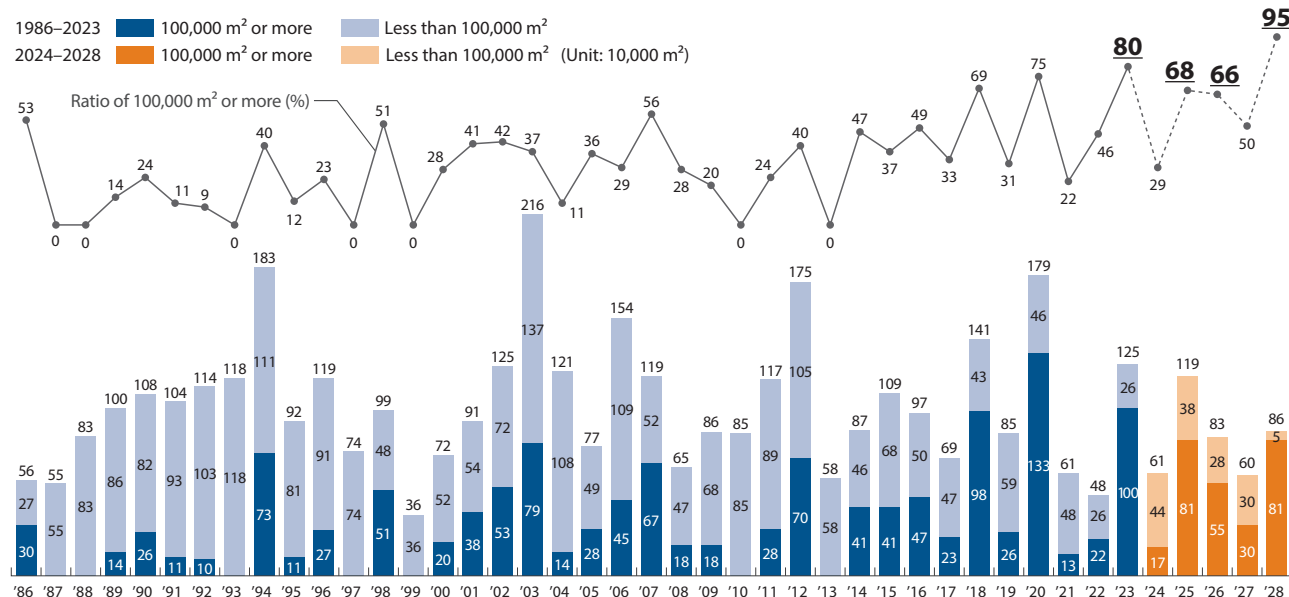


Figure 4 shows supply figures from Figure 1 broken down into properties with a gross office-floor space of more, or less, than 100,000 m². Similar to 2023 (1,000,000 m²), substantial supplies in the "100,000 m² or more" class are expected, including 810,000 m² in 2025 and 810,000 m² in 2028. The supply ratio of these larger properties was 80% in 2023, and is forecast to be 68% in 2025, 66% in 2026, and 95% in 2028, indicating an increase over the medium term.

Figure 4: Trends in Supply of Properties with 100,000 m² or More Gross Office-floor Space



1-3 Supply Volume Trends by Area

- The average supply in the five central cities over the next five years is expected to be lower than the average over the past ten years.
- The expected ratio of supply in the five central cities over the next five years is 83%, similar to the past 10-year average of 85%.
- The seven major business areas in central Tokyo will account for 72% of the supply over the next five years.

The supply of large office buildings in the five central cities of Chiyoda, Chuo, Minato, Shinjuku and Shibuya is expected to average 670,000 m² over the next five years, lower than the past 10-year average of 860,000 m² (Figure 5). In addition, these five cities will account for 83% of Tokyo's total supply over the next five years, roughly the same as the past 10-year average of 85% (Figure 6).

Figure 5: Trends in Large Office Building Supply Volume, by Location

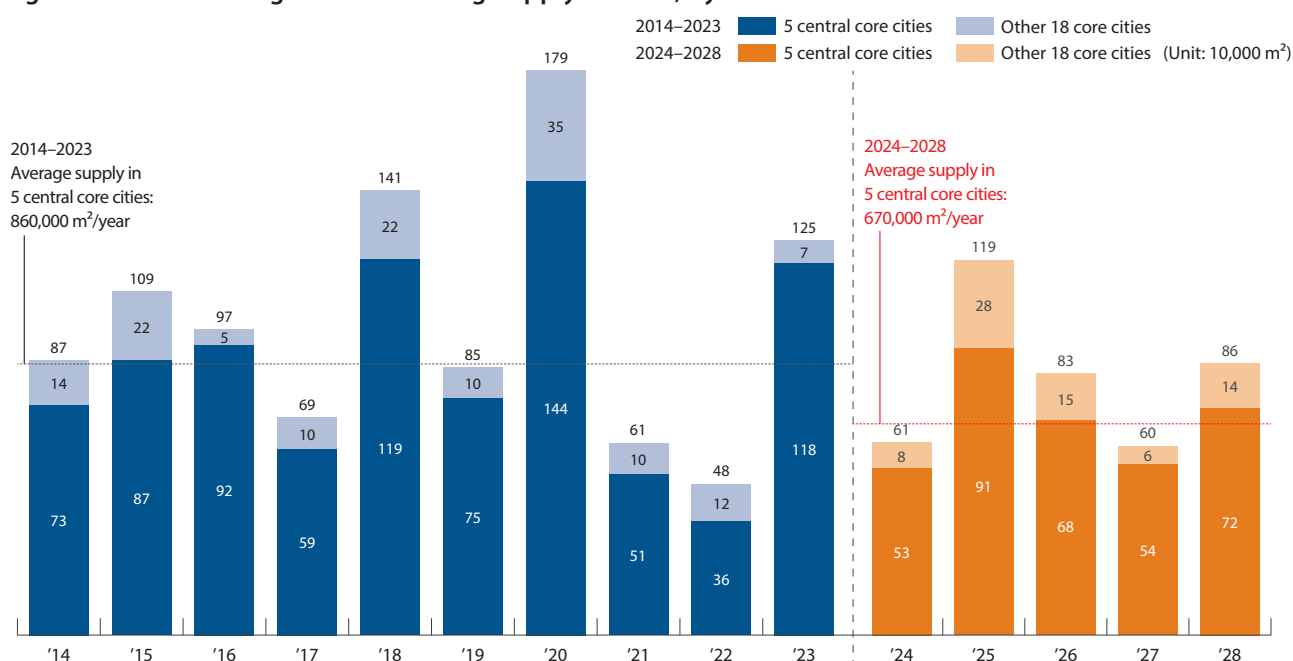


Figure 6: Large Office Building Supply-volume Share, by Location

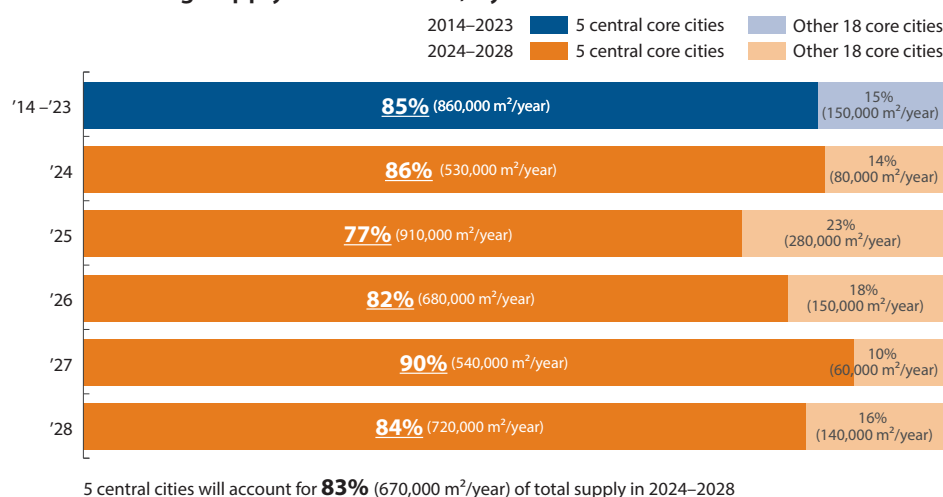


Figure 7 shows the seven major business areas that Mori Building monitors for referential purposes and Figure 8 shows the forecasted supply volumes and ratios in each area from 2024–2028. Total supply in Tokyo's 23 core cities is expected to reach 4.08 million m², of which the top seven areas will account for 2.93 million m², or 72%. The largest supply is in Nihonbashi/Yaesu/Kyobashi (710,000 m², or 17%), where large-scale redevelopment is underway around Tokyo Station and Nihonbashi, including offices, hotels, commercial facilities, and cultural facilities.

Figure 9 compares supply by area in 2019–2023 and 2024–2028. Supply is expected to increase in areas such as Nihonbashi/Yaesu/Kyobashi (470,000 m² to 710,000 m²), Akasaka/Roppongi (10,000 m² to 460,000 m²) and Shinagawa (40,000 m² to 400,000 m²). Large-scale developments currently underway are integrating buildings with large bus terminals and other transportation infrastructure as well as diverse urban functions such as hotels, commercial enterprises and cultural facilities, all of which will improve the attractiveness of these areas.

Figure 7: Major Business Areas for Reference



Figure 8: Supply Share in Major Business Areas (2024–2028)

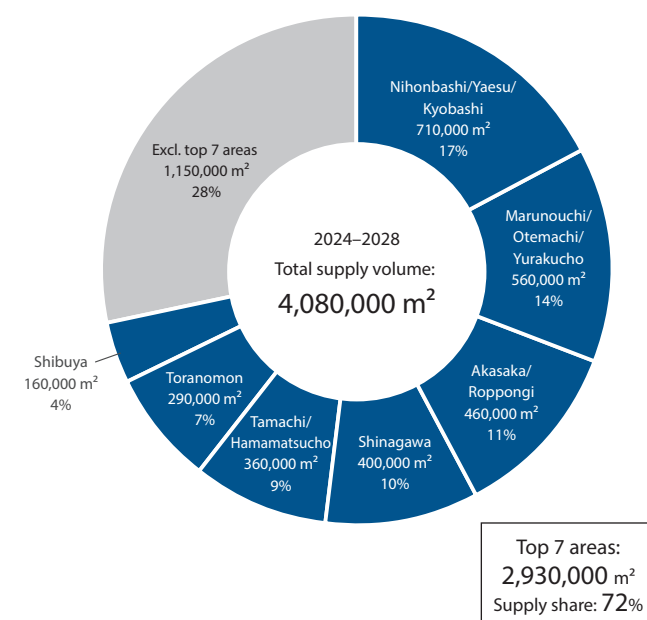
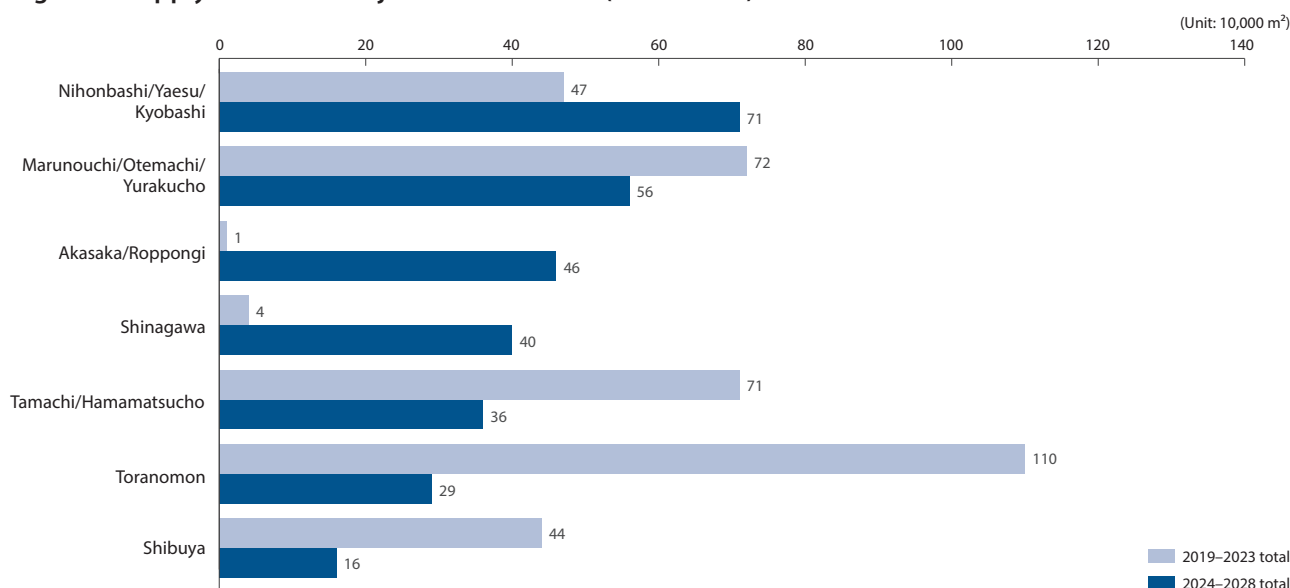


Figure 9: Supply Volume in Major Business Areas (2024–2028)



2 Absorption Volume and Vacancy Rates

- The absorption volume in Tokyo's 23 cities in 2023 increased significantly to exceed the pre-pandemic (2000–2019) annual average. At end of 2023, the vacancy rate of 5.8% was 0.1point below the 2022 yearend rate, the first decline in four years.
- In the beginning of 2024, the vacancy rate began declining overall, despite an increase in major business areas, and is expected to continue falling due to strong demand for better locations and high-grade buildings.

In 2023, the supply of office space in Tokyo's 23 core cities, 1.25 million m², exceeded the historical average and raised concerns about oversupply in the office market. However, absorption volume increased significantly to 1.2 million m², well above the pre-pandemic (2000–2019) annual average of 1.06 million m², and nearly matching the supply level in 2023. The overall vacancy rate fell 0.1 point from the previous survey to 5.8%, the first decline since 2019 (Figure 10), but in major business areas the rate increased 0.7 point to 6.2% in 2023 and then began declining in early 2024. The overall vacancy rate is expected to continue falling, driven by firm demand for favorable locations and high-grade buildings as well as strong corporate demand for innovative office environments (Figure 11).

In the 23 core cities, roughly 70% (890,000 m²) of total supply (1.25 million m²) was absorbed, and in the main business areas absorption volume was at a similar level, about 70% (740,000 m²) of total supply (1.07 million m²) in 2023 (Figure 12). Among existing properties, absorption had remained negative since the pandemic but shifted to a positive 310,000 m² in 2023 (Figure 13). Office demand, after declining during the pandemic, has stabilized and is showing signs of expanding on strong corporate earnings and a return to the office by employees.

Figure 10: Supply Volume, Absorption Volume and Vacancy Rate (Tokyo's 23 Core Cities)

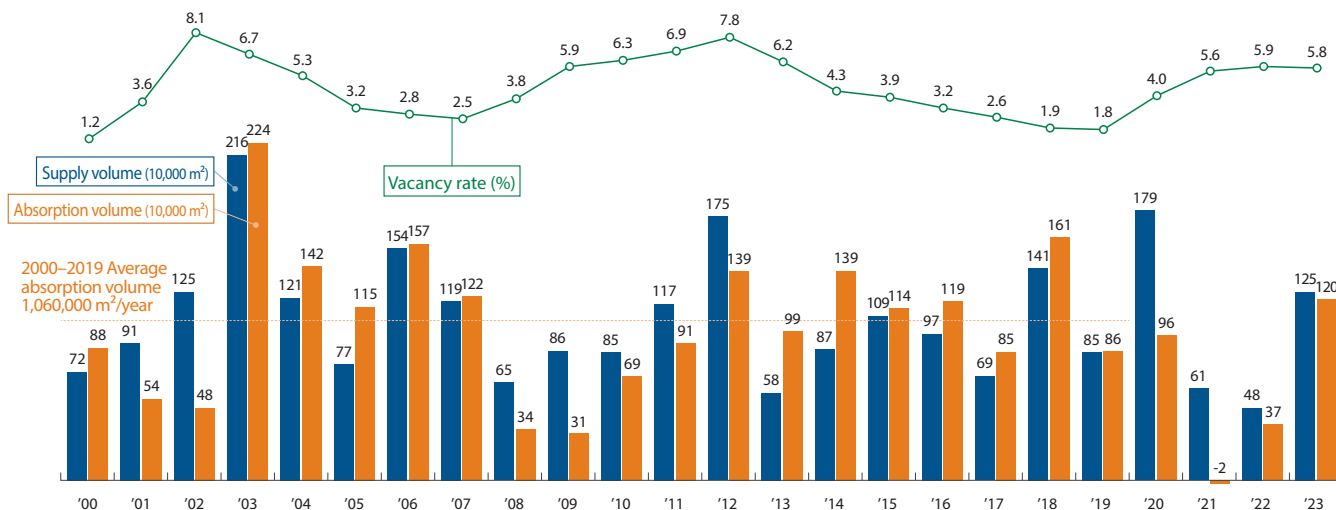
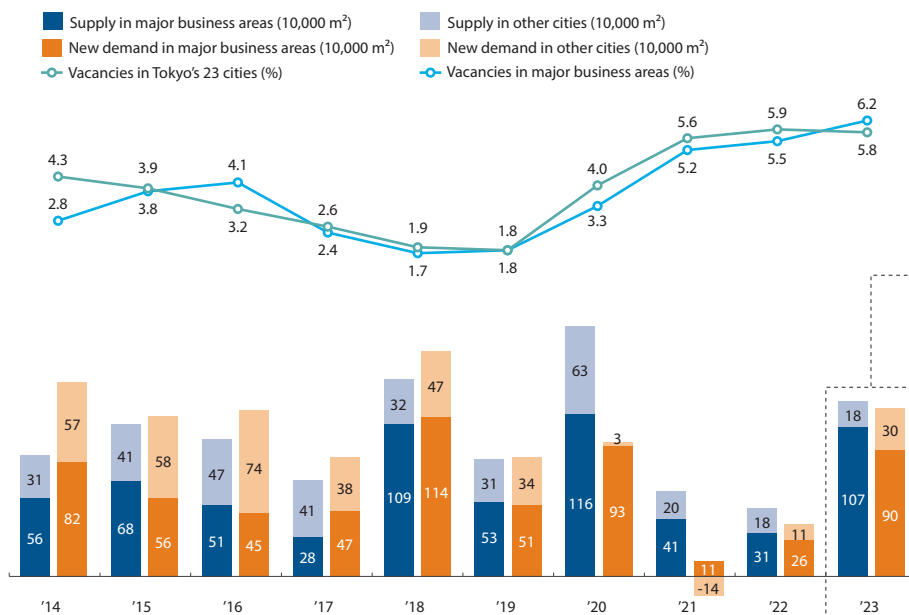
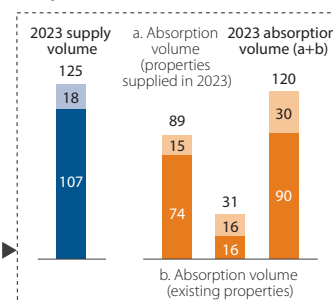
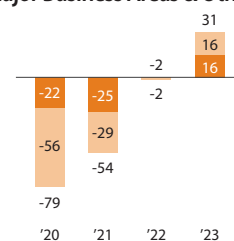


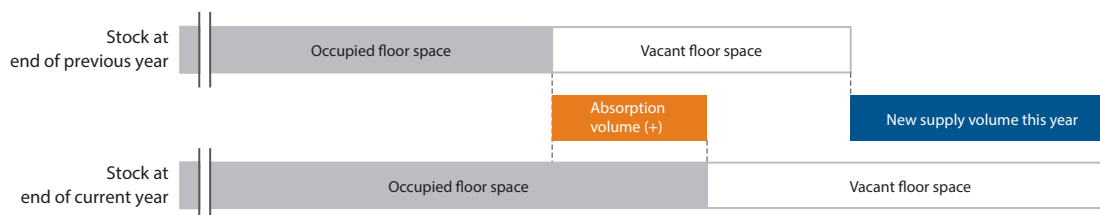
Figure 11: Supply Volume, Absorption Volume and Vacancy Rate (Major Business Areas & Others)

Figure 12: Breakdown of 2023 Supply Volume and Absorption Volume (Major Business Areas & Others)

Figure 13: Trends in Supply of Existing Properties Since Pandemic (Major Business Areas & Others)


Concept of Absorption Volume

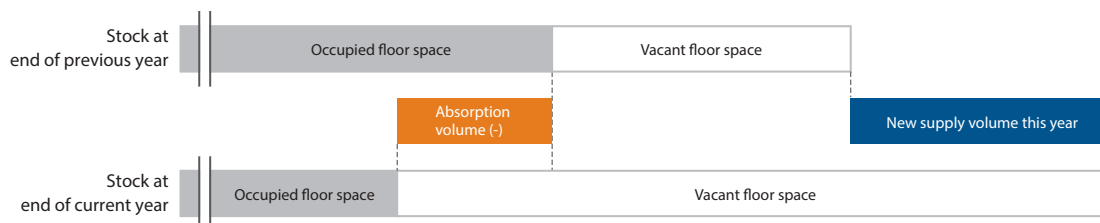
The absorption volume for large office buildings (at least 10,000 m²; fully constructed in 1986 or later) refers to newly occupied floor space in the current year, calculated as [(vacant floor space at end of previous year) + (newly supplied floor space) - (vacant floor space at end of current year)], as shown in Figure 14.

Figure 14: Concept of Absorption Volume

(1) When absorption volume is positive



(2) When absorption volume is negative



Figures are converted to gross floor area by dividing the net leased area by the average effective ratio of 65.5% for a typical large office building.

Reference Office Needs in Tokyo's Core 23 Cities (As announced on December 14, 2023)

- Among companies with plans to lease new office space, the response "plan to expand" has been increasing in recent years and accounted for the majority in 2023.
- Regarding the reasons for leasing new office space, more companies than previously cited better location, higher grade facilities, or the intention to create innovative office environments.
- Employees commuting to offices averaged 76%, up 7 percentage points from the previous survey, indicating that employees are continuing to return to offices.
- For companies with 300 or more employees, the most frequently cited functions of headquarters were "Improve employee engagement," "Cross-functional and casual encounters and communication" and "Active discussion and generation of ideas."

Survey Framework

Questionnaires were mailed to companies based in the 23 core cities and ranked in the top 10,000 for capitalization.

- Targets: 9,859 companies (excluding Mori Building tenants)

- Response rate: 18.7% (1,843 firms)

- Period: September 19 to October 16, 2023

In the survey, 27% of the companies responded that they plan to lease new office space, up three percentage points from the previous survey (Figure 15). Of those, 55% have "plans to expand" their leased space, up for the third consecutive year (Figure 16). Demand is continuing to recover in the post-pandemic era as more workers return to the office and growing, high-performing companies expand their business scale and hiring.

Figure 15: Future Plans to Lease New Office Space

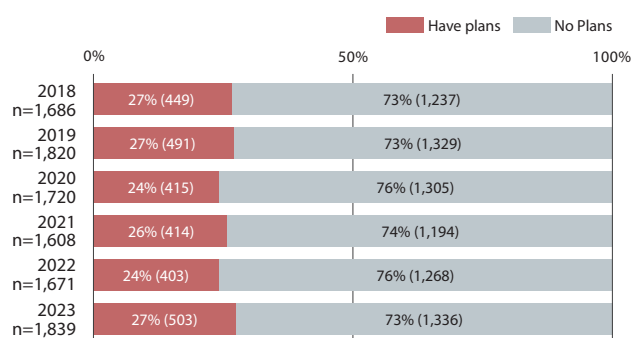
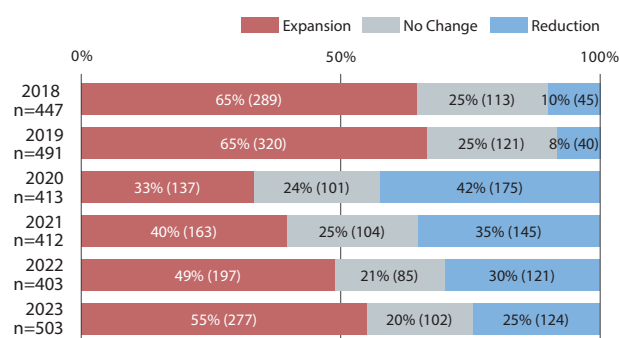
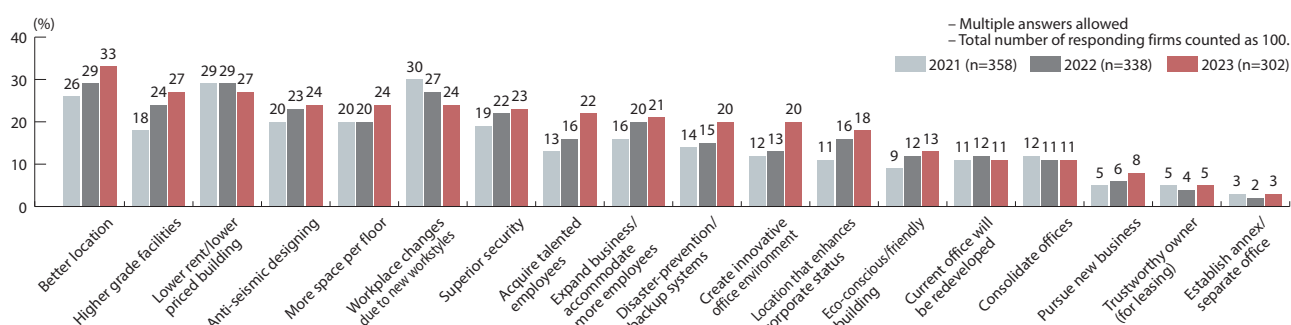


Figure 16: Plans for Expansion vs. Reduction of Space (Over time)



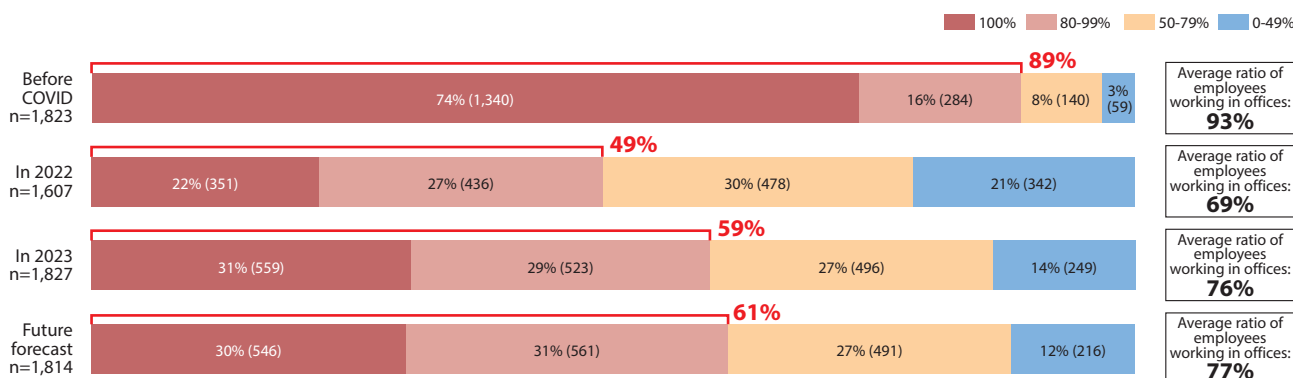
When companies that plan to lease new office space were asked about their reasons, "Better location" rose from 2021–2023 (26% → 29% → 33%) to become the top reply, followed by "Higher grade facilities" (18% → 24% → 27%) (Figure 17). "Lower rent/lower priced building," which ranked first in the previous survey, was tied for second (29% → 29% → 27%). In addition, the response rates for "Anti-seismic designing" (20% → 23% → 24%), "Create innovative office environment" (12% → 13% → 20%), "Acquire talented employees" (13% → 16% → 22%), and "Expand business/accommodate more employees" (16% → 20% → 21%) also increased, suggesting that more companies are planning to lease new space to improve their location/building grade or create innovative office environments in anticipation of future corporate growth.

Figure 17: Reasons for Planning to Lease New Office Space (compared to last two surveys)



The ratio of employees working in offices averaged 76% and companies reporting "80% or more" totaled 59%, compared to 69% and 49% respectively last year, indicating a continuing return to offices (Figure 18).

Figure 18: Ratio of Employees Working in Offices Currently



The most commonly cited functions and roles of headquarters were "Comfortable work environment with desks," "OA equipment and digital communications" (51%) and "Information security" (46%), followed by "Improve employee engagement" (45%), "Cross-divisional and casual encounters and communication" (40%) and "Active discussion and generation of ideas" (38%), similar to the previous survey (Figure 19). Responses that increased noticeably since the previous survey included "Improve employee engagement" (from 40% to 45%) and "Improve employee wellbeing" (from 19% to 24%).

For companies with 300 or more employees, the top three responses were "Improve employee engagement (67%)," "Cross-functional and casual encounters and communication (64%)" and "Active discussion and generation of ideas (56%)" (Figure 20). In addition, "Induce employee creativity (44%)," "Strengthen recruiting and retention (35%)" and "Improve employee wellbeing (34%)" were cited much more frequently by large firms compared to the overall average, indicating an increasing emphasis on the impact of offices on employees.

Figure 19: Significance, Functions and Roles of Head Offices

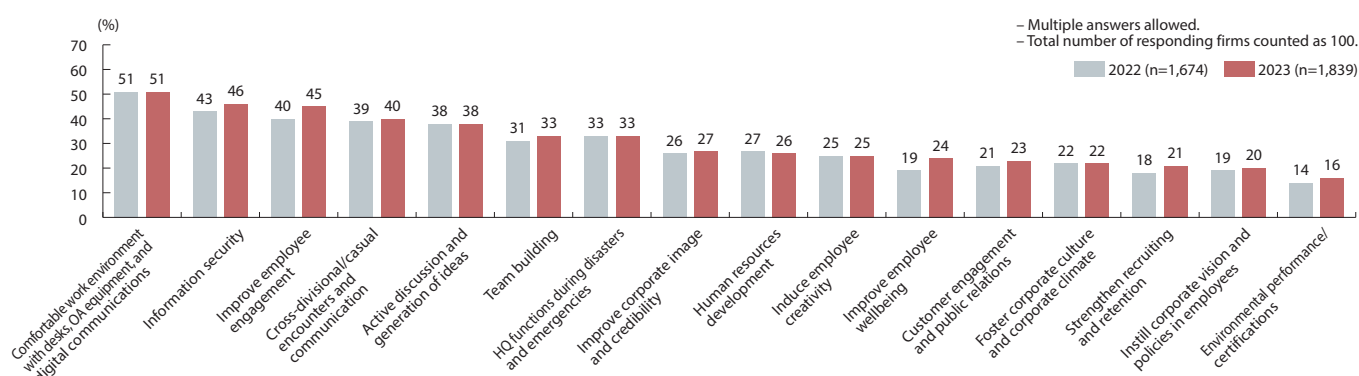
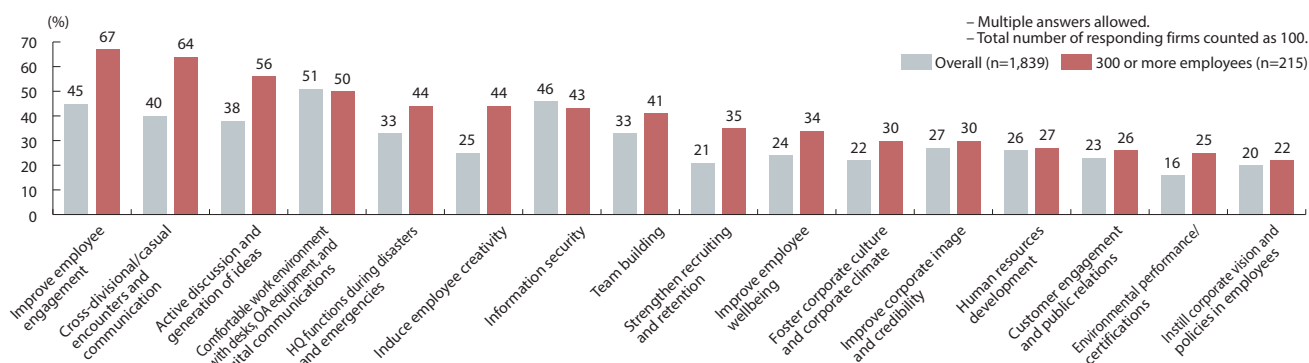


Figure 20: Significance, Functions and Roles of Head Offices (companies with 300 or more employees)



Major Large-scale Office Buildings Scheduled for Completion (includes some completed projects)

Name of Project (Name of Building)	Floor Area (m ²)	Lead Project Developer(s)	Location
2024			
Shintora Yasuda Building	25,800	Yasuda Real Estate	Shimbashi, Minato City
Sumitomo Realty & Development Nakano Station Redevelopment	49,800	Redevelopment Association (Sumitomo Realty & Development)	Nakano, Nakano City
Nikon Corporation Head Office	42,300	Nikon Corporation	Nishi-oi, Shinagawa City
SHIBUYA AXSH	44,500	Redevelopment Association (Tokyu)	Shibuya, Shibuya City
AKASAKA GREEN CROSS	74,000	Sekisui House and Nippon Life Insurance Company	Akasaka, Minato City
Tokyo World Gate Akasaka, Akasaka Trust Tower	208,000	Mori Trust and NTT Urban Development Corporation	Akasaka, Minato City
TODA BUILDING	94,800	Toda Corporation	Kyobashi, Chuo City
2025			
Sumitomo Realty & Development Roppongi Central Tower	31,900	Sumitomo Realty & Development	Roppongi, Minato City
TORANOMON ALCEA TOWER	180,600	Urban Renaissance Agency and Nippon Steel Kowa Real Estate	Toranomon, Minato City
Koujimachi Kousai Building	36,400	Tetsudou Kousaikai	Kojimachi, Chiyoda City
TAKANAWA GATEWAY CITY THE LINKPILLAR 1	460,200	East Japan Railway Company	Konan, Minato City
Toyosu 4-2 District Development Project	136,000	IHI Corporation and Mitsubishi Estate	Toyosu, Koto City
Tamachi Station Front Redevelopment Project	55,500	Chuo-Nittochi, Urban Renaissance Agency	Shiba, Minato City
Sumitomo Realty and Development Shiba Park Project	39,000	Sumitomo Realty & Development	Shiba, Minato City
TAKANAWA GATEWAY CITY THE LINKPILLAR 2	208,200	East Japan Railway Company	Konan, Minato City
Nakano M-SQUARE	91,300	Redevelopment Association (Mitsui Fudosan)	Nakano, Nakano City
IT TOWER TOKYO (Ikebukuro Station West Exit Project)	41,600	West Gate	Nishi-ikebukuro, Toshima City
2026			
Uchi-Kanda 1-Chome Project	85,300	Mitsubishi Estate	Uchikanda, Chiyoda City
Nihonbashi 1-Chome Central District Zone C	374,000	Redevelopment Association (Mitsui Fudosan)	Nihonbashi, Chuo City
Nishi-Shinjuku 1-Chome Project	96,900	Meiji Yasuda Life	Nishi-shinjuku, Shinjuku City
Oimachi Station Hiromachi Area Development A-1 Zone Office Tower	250,000	East Japan Railway Company	Hiromachi, Shinagawa City
2027			
Dogenzaka 2-chome South District Redevelopment Project	87,100	Redevelopment Association (Mitsubishi Estate)	Dogenzaka, Shibuya City
Hamamatsucho 2-Chome Redevelopment Project Towers A-1 & A-2	205,500	World Trade Center Building, Kajima, Tokyo Monorail, and East Japan Railway Company	Hamamatsu-cho, Minato City
Higashigotanda 2-Chome Block 3 Redevelopment Project District 1 Office Tower	69,100	Redevelopment Association (Tokyu Land Corporation)	Higashi-gotanda, Shinagawa City
Urban Renewal Step-Up Project (Shibuya District) Shibuya 1-Chome Area Joint Development Project	46,600	Hulic and Shimizu Corporation	Shibuya, Shibuya City
Uchisaiwaicho 1-Chome South Area Redevelopment	287,000	The Dai-ichi Life Insurance Company, Chuo Nittochi	Uchisaiwaicho, Chiyoda City
Toranomon 1-Chome East District Redevelopment	120,000	Redevelopment Association (Chuo-Nittochi, Urban Renaissance Agency, and Sumitomo Realty & Development)	Toranomon, Minato City
2028			
TOKYO TORCH Torch Tower	553,000	Mitsubishi Estate	Otemachi, Chiyoda City
Akasaka 2-Chome and 6-Chome Area Redevelopment East Block	167,700	Mitsubishi Estate, TBS Holdings	Akasaka, Minato City
Sengakuji Station Area Redevelopment	112,000	Tokyu Land, Keiyu Corporation	Takanawa, Minato City
Higashi Ikebukuro 1-Chome Redevelopment Project	155,900	Redevelopment Association (Sumitomo Realty & Development)	Higashi-ikebukuro, Toshima City
Yaesu 1-Chome North Area Redevelopment South Block	185,600	Redevelopment Association (Tokyo Tatemono)	Yaesu, Chuo City

- Supply volume figures provided by Mori Building are based on actual office-floor space and do not necessarily agree with total floor space figures (which include retail and residence floor areas) shown in the table above.

- Projects for which only the year of supply is published are, in principle, recorded as supply at the end of the fiscal year.

- In the column "Lead Project Developer(s)," a company or organization in parentheses () is a major enterprise participating as an associate member, special-purpose company (S.P.C.), specified constructor, partner or joint-venture participant.