

Analyzing Changes in Factors Determining Office Rents

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Introduction

In recent years, work styles and workplaces have changed in tandem with social trends (Figure 1).^{*1} Government-led work style reforms since 2016, along with the COVID-19 pandemic that began in early 2020, have promoted flexible work styles such as flextime and telework. Even after the COVID-19 pandemic subsided, work styles have not completely returned to the previous work styles; rather, we are currently in a transitional phase where companies are exploring the work styles and workplaces that best suit their needs.

Figure 1: Changes in Work Styles and Workplaces in Recent Years

	...	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	...
		Conventional	Work style reform				COVID pandemic				Return-to-office	Future	
							Paradigm shift in work styles and workplaces						
Society		Technological evolution <ul style="list-style-type: none"> • Telework becomes possible. 	Work style reform <ul style="list-style-type: none"> • Flexible work styles are implemented. • Telework is implemented. 				COVID pandemic <ul style="list-style-type: none"> • Contact avoidance is mandated. 				Reclassification as Class 5 disease <ul style="list-style-type: none"> • COVID pandemic winds down. 		<ul style="list-style-type: none"> • Social contexts surrounding companies (human capital management, labor shortage, SDGs, ESG, progress in AI, acceleration of innovation, etc.)
Work style		Fixed work style <ul style="list-style-type: none"> • Come to the office at a set time each day 	Choice of when and where to work <ul style="list-style-type: none"> • Work-from-home policies and flextime programs • Work style not tied to a certain place or time 				Rapid spread of telework <ul style="list-style-type: none"> • Coming to the office is restricted. • Telework spreads as working from home becomes mandatory. • While remote meetings proliferate, there is a renewed recognition of the value of face-to-face contact. 				Return to the office <ul style="list-style-type: none"> • Hybrid work with employees coming to the office more frequently is the mainstream. 		<ul style="list-style-type: none"> • What is the optimal solution for hybrid work (combination of coming to the office and teleworking)? • Has internal communication been invigorated?
Workplace		Fixed office <ul style="list-style-type: none"> • Fixed desks for all office occupants • Office space that suit the number of office occupants 	Providing workplaces within and outside the office <ul style="list-style-type: none"> • Hot-desking for work desks • Satellite offices 				Downsizing of office to match coming-to-office ratio <ul style="list-style-type: none"> • Office occupancy rate drops. • Office downsizing trend (Idea that offices are not necessary) 				Defects in offices <ul style="list-style-type: none"> • Office feels cramped as more people come to the office. • Creating an office that people actively want to go is required. 		<ul style="list-style-type: none"> • What is the optimal solution for workplaces? • Is a return to the office enough?

These changes in the social environment are having a significant impact on the office market as well. Analyses conducted by Xymax Research Institute have confirmed that, in the wake of the COVID-19 pandemic, vacancy rates for “large buildings” and “recently constructed buildings” have risen more sharply than for other property types.^{*2} It has also become evident that vacancy rates in the bay district have been slow to decline even amid the economic recovery.^{*3} On the other hand, to accurately gauge market trends, it is essential to monitor not only vacancy rates but also trends in contract rents, which directly reflect asset

value. Given the current changes in work styles and vacancy rates compared to before the work style reforms, the impact of a building’s specifications and location on rent may also have changed.

Therefore, this report uses a hedonic approach to analyze changes in rent-determining factors and disparities in rents between districts. For the analysis, the target period was divided into four phases, and the various factors affecting contract rents were compared quantitatively. We thereby examined how the factors that determine office rent have evolved in response to changes in the social and historical context. This study was conducted under the guidance of Professor Chihiro Shimizu of the Graduate School of Social Data Science at Hitotsubashi University, in cooperation with Mr. Atsushi Tanizawa, the student at the University.

- *1 *Considering Workplace Strategies for the Future*, published on March 25, 2025
https://www.xymax.co.jp/english/assets/pdf/news_research/20250325.pdf
- *2 *Deciphering Changes in the Office Market*, published on July 10, 2024
https://www.xymax.co.jp/english/assets/pdf/news_research/20240710.pdf
- *3 *Deciphering Changes in the Office Market (2025)*, published on June 4, 2025
https://www.xymax.co.jp/english/assets/pdf/news_research/20250604.pdf

1. Changes in Rent-Determining Factors

In Chapter 1, we divide the Tokyo 23-ward office market from 2013 into four periods—the Pre-Reform Period, the Work Style Reform Period, the COVID-19 Pandemic Period, and the Post-COVID Period—and examine how rent-determining factors changed by conducting a regression analysis of contract rents for each period.

Analytical Methods and Data Used

The analysis uses data on completed office lease transactions in Tokyo’s 23 wards between Q1 2013 and Q3 2025, collected by Xymax Research Institute. Within the analysis period, the period from Q1 2013 to Q3 2016 is defined as the Pre-Reform Period, the period from Q4 2016 to Q1 2020 as the Work Style Reform Period (Pre-Pandemic), the period from Q2 2020 to Q2 2023 as the Pandemic Period, and the period from Q3 2023 to Q3 2025 as the Post-Pandemic Period. The number of data points analyzed for each period is shown in Figure 2.

Figure 2: Timeframes for Each Period

	Pre-Reform Period	Work Style Reform Period	Pandemic Period	Post-Pandemic Period
Timeframes	Q1 2013–Q3 2016	Q4 2016–Q1 2020	Q2 2020–Q2 2023	Q3 2023–Q3 2025
Number of data points	16,872	12,582	8,388	6,873

The analytical method used is multiple regression analysis, with the logarithm of the per-tsubo contract rent for each period serving as the response variable. The explanatory variables include walking time from the nearest station, building age, renovation status, gross building area, floor-to-ceiling height, timing of contract (quarterly), and dummy variables for office districts defined by Xymax Research Institute.

For the building age, we adopted a model in which the coefficient varies depending on whether the building is less than 30 years old or 30 years or older. Regarding the renovation status, we assumed that the effect of rent increases would diminish after approximately 16 years; therefore, in our analysis, we classified properties as “renovated” only if fewer than 16 years had elapsed since the renovation.

For the purposes of this report, “renovation” is defined as follows.

- We classify buildings as “renovated buildings” if we have confirmed that renovations have been completed based on tenant recruitment information or publicly available data. All other buildings are classified as “non-renovated buildings.”
- Although the scope of the renovation includes various types of work, such as full renovations, renovations of common areas, and renovations of rental units, this analysis only considers whether renovation took place. It does not take into account the specific details of the renovations.
- Regarding the timing of the renovations, we use the most recent date obtained from publicly available information.

Additionally, we added automated security systems, individual air conditioning, and raised floors as explanatory variables that may influence contract rents (Figure 3).

Figure 3: Analysis Overview

Data used	Complete office lease transaction data collected by Xymax Research Institute
Analysis period	Q1 2013–Q3 2025
Number of completed lease transactions	44,715
Analytical method	Multiple regression analysis by sub-sample across four periods
Response variable	Logarithm of per-tsubo new contract rent
Explanatory variables and control variables	<ul style="list-style-type: none"> • Walking time from nearest station • Building age (with a model specification in which depreciation is attenuated beyond 30 years) • Renewal flag (fewer than 16 years had elapsed since renovation) • Logarithm of gross building area • Floor-to-ceiling height • Timing of contract (quarterly) • Office district • Control variables (automated security systems, individual air conditioning, raised floors)

Analysis Results and Discussion

Based on the results of the multiple regression analysis,^{*4} Figure 4 shows the regression coefficients for each period regarding walking time from the nearest station, building age, renovation flag, and gross building area.

*4 Details of the analysis results are provided in Figure 7 of the Appendix.

Figure 4: Impact of Explanatory Variable on Contract Rent by Period

Explanatory variable	Pre-Reform Period	Work Style Reform Period	Pandemic Period	Post-Pandemic Period
1-minute increase in walking time from nearest station	-2.7%	-2.4%	-2.3%	-2.3%
1-year increase in building age (up to 30 years)	-1.4%	-1.4%	-1.3%	-1.3%
1-year increase in building age (30 years or more)	-0.1%	-0.4%	-0.5%	-0.4%
Renovation flag	3.5%	5.3%	9.0%	8.8%
10% increase in gross building area	1.1%	1.2%	0.7%	0.6%

Based on this, we will examine changes in the rent-determining factors from the perspectives of proximity (walking time from the nearest station), newness (building age and renovations), and size (gross building area). Although the downward trend in rents caused by longer walking times from the nearest station became slightly less pronounced in the last three periods compared to the Pre-Reform Period, no significant changes were observed across all periods. When focusing on the impact of a building’s age, for properties less than 30 years old, the annual decline in rent remains largely unchanged across all periods. However, the rate of decline in rents for properties over 30 years old has widened from -0.1% in the Pre-Reform Period to -0.4--0.5% in the Work Style Reform Period and beyond. On the other hand, the impact of renovations has been growing over time. The upward effect was approximately 3.5% in the Pre-Reform Period, but it expanded to about 5.3% during the Work Style Reform Period and to about 9.0% during the Pandemic Period and beyond. Furthermore, it has been observed that the effect of rent increases tends to be greater for properties that were older at the time of renovation.*5 These results suggest that, as the office building stock ages, buildings that have undergone appropriate renovations may be receiving relatively higher ratings, while those that have not been renovated may be seeing their ratings decline. Finally, examining the impact of gross building area on rent reveals a significant decrease before and after the onset of the pandemic. During the Pre-Reform Period, a 10% increase in gross building area tended to result in a rise of approximately 1.1% in contract rents, while during the Work Style Reform Period, the rise tended to be approximately 1.2%. On the other hand, the effect was 0.7% during the Pandemic Period and 0.6% during the most recent Post-Pandemic Period, meaning the impact had diminished to about half that of the Work Style Reform Period.

*5 *Impact of Renovations on Office Rents*, published on October 31, 2025 (in Japanese only)
<https://soken.xymax.co.jp/report/2510-renewal.html>

Based on the above results, while no significant change was observed in the impact of the “proximity” factor—one of the “proximity, newness, and size” factors affecting rent—changes were noted regarding the “newness” and “size” factors. Specifically, among the factors related to “newness,” the impact of rent declines due to building age remained largely stable throughout the period. However, the effect of rent

increases resulting from renovations grew over time. Among the “size” factors, the impact of rent increases resulting from an expansion in gross building area has weakened compared to pre-pandemic levels. This trend can be attributed to the diversification of office formats in response to changing demands driven by shifts in the social environment. Since the onset of the COVID-19 pandemic, there has been a rapid spread of furnished offices, which are available for rent furnished, and shared satellite offices, which offer flexible, hourly use as needed. In particular, furnished offices tend to command higher rents than standard spaces and are often provided in renovated small and medium-sized buildings. We presume that the widespread adoption of this type of office space has contributed significantly to the relative rise in rents for small-to-medium-scale buildings in recent years, as well as to the increase in added value resulting from renovations.

In this analysis, however, the term “renovation” is defined solely by whether it was carried out, not by the specific nature of the renovations. Therefore, it is important to note that the effect of rent increases resulting from renovations in this analysis represents an average of the impact on rent from a variety of factors, such as common area renovations and the conversion to furnished office spaces. A more detailed analysis is required to determine exactly which types of renovations are effective for properties with specific attributes.

2. Rent Disparities and Changes in Estimated Rents by District

In Chapter 2, we compare Q1 2020, just before the Pandemic Period, with Q3 2025, and analyze changes in contract rents by office district. The target districts are 26 of the 52 districts within Tokyo’s 23 wards that Xymax Research Institute defined as having at least 300 completed lease transactions during the analysis period.

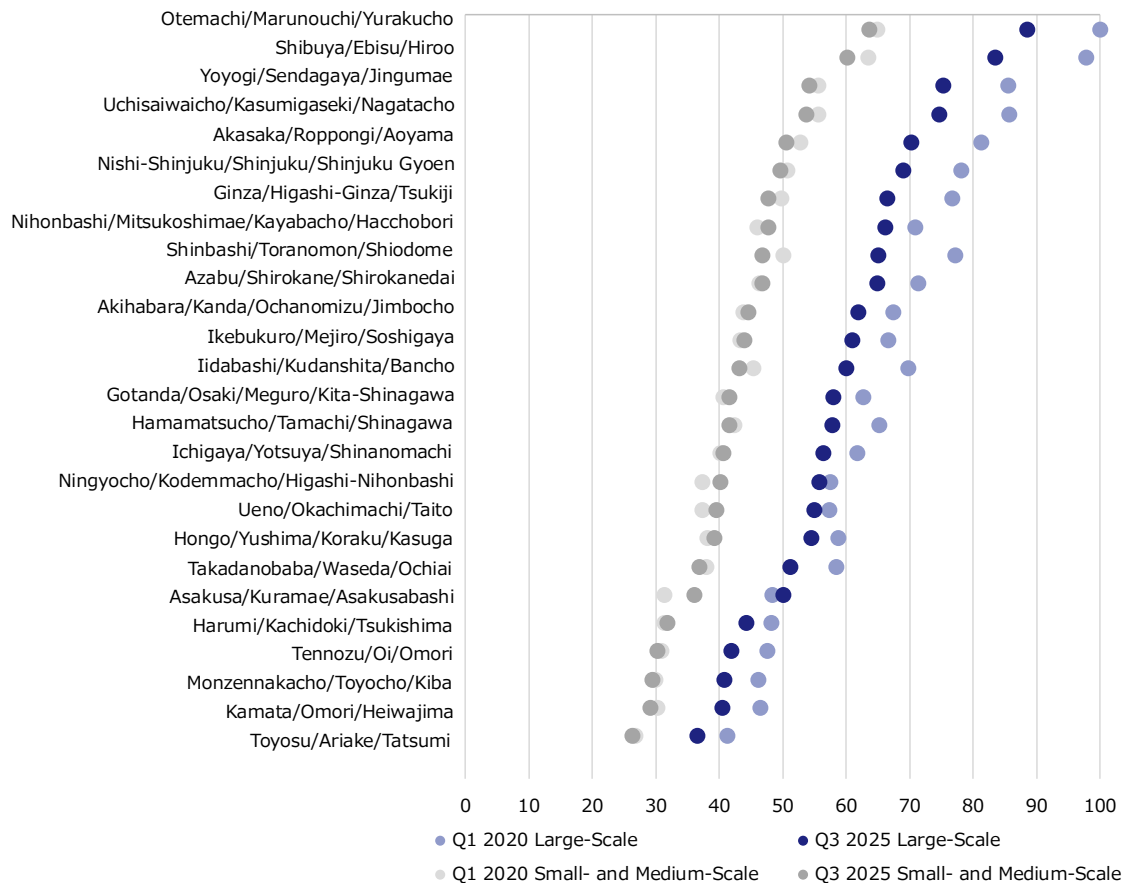
To facilitate comparisons of rent levels across districts over time, we estimated contract rents using the multiple regression model derived in the previous chapter and created a contract rent index by indexing those values. To estimate the contract rents, we established two types of model buildings—“large-scale” and “small-to-medium-scale”—and kept the explanatory variables other than district and time period constant, as shown in Figure 5.

Figure 6 shows the contract rent index by district for two time points: Q1 2020 and Q3 2025. The index is calculated using the rent for large-scale model buildings in the Otemachi/Marunouchi/Yurakucho district during Q1 2020 as the base value of 100. Note that districts in which the four plots cannot be distinguished indicate overlapping points because their index values are very similar.

Figure 5: Default Values for Explanatory Variables in the Model Buildings (1 tsubo = 3.3 sqm)

Variable	Model large-scale building	Model small- and medium-scale building
Gross building area	20,000 tsubo	1,500 tsubo
Building age	10 years	20 years
Fewer than 16 years since renovation flag	Absent	Absent
Walking time from nearest station	3 minutes	3 minutes
Automated security system flag	Present	Present
Individual air conditioning flag	Present	Present
Raised floor flag	Present	Present

Figure 6: Contract Rent Index (Q1 2020, Otemachi/Marunouchi/Yurakucho District; Large-scale = 100)



As shown in Figure 6, the contract rent index for large-scale buildings has declined overall in Q3 2025 compared to Q1 2020. When the changes in the indices for each district are averaged, the result is a decline of 6.9 points. In Q1 2020, rents remained at high levels due to tight supply and demand conditions immediately prior to the onset of the pandemic. Although the economy is in the process of recovering from the downturn caused by the pandemic, the effect of rising rents driven by gross building area has

waned, and as of Q3 2025, many districts have not yet returned to their pre-pandemic levels. On the other hand, for small- and medium-scale buildings, the average change in the index across all districts was a decline of 0.3 points. The difference in contract rents between the Q1 2020 and Q3 2025 was smaller than that for large buildings.

Looking at the contract rent indices by district, there has been no significant change in the overall trend between the two time points. However, the index has risen in small- and medium-scale buildings in the Ningyocho/Kodemmacho/Higashi-Nihonbashi, Ueno/Okachimachi/Taito, and Asakusa/Kuramae/Asakusabashi districts. Although rent levels in these districts were low until the Work Style Reform Period, they share the common feature that the adoption of furnished offices progressed ahead of other districts. Since the shift toward furnished offices can drive up rents, this may have resulted in a relatively more pronounced rise in the index in these districts, where rent levels were originally low.

Conclusion

In this report, we analyzed the evolution of the office market from before the work style reform initiative to the present, with a focus on contract rents. As a result, we have found that the rent-determining factors have changed over time; while the effect of renovations on rent increases has grown since the onset of the COVID-19 pandemic, the upward trend in rent driven by gross building area has diminished. In the contract rent index by district and building size, large-scale buildings saw an average decline of 6.9 points compared to Q1 2020, while small- and medium-scale buildings saw only an average decline of 0.3 points. These results suggest that the factors determining office value are changing in response to shifts in social conditions.

These changes are believed to stem from shifts in office needs driven by changes in social conditions and the resulting diversification of service models designed to meet those needs. In addition to changes in office usage driven by the rise of hybrid work, traditional office relocations have become difficult due to soaring interior construction costs and prolonged construction periods. Shared satellite offices and furnished offices are one solution to the challenges faced by these tenant companies. They can be implemented in small- and medium-scale buildings through renovation. The growing popularity of these office models suggests that enhancing a building's value requires moving beyond traditional criteria—such as proximity, newness, and size—and instead responding flexibly to corporate needs.

For building owners, the ability to stay attuned to societal changes and respond flexibly to office needs—both in terms of physical infrastructure and operational services—will likely be a key factor in future building management.

Xymax Research Institute will continue to provide valuable insights into the ever-changing market through research and studies of office market trends and customer needs.

Appendix

Figure 7: Results of Multiple Regression Analysis

	Pre-Reform Period	Work Style Reform Period	Pandemic Period	Post-Pandemic Period
Timeframe	Q1 2013–Q3 2016	Q4 2016–Q1 2020	Q2 2020–Q2 2023	Q3 2023–Q3 2025
Sample size	16872	12582	8388	6873
Response variable	Logarithm of contract rent			
Logarithm of gross building area	0.109*** (0.002)	0.116*** (0.002)	0.073*** (0.003)	0.064*** (0.003)
Building age	-0.014*** (0.000)	-0.014*** (0.000)	-0.013*** (0.000)	-0.013*** (0.000)
Building age 30+ years dummy × No. of years exceeding 30 years	0.013*** (0.000)	0.010*** (0.000)	0.008*** (0.001)	0.009*** (0.001)
Fewer than 16 years since renovation	0.035*** (0.004)	0.053*** (0.004)	0.090*** (0.005)	0.088*** (0.006)
Walking time from nearest station	-0.027*** (0.001)	-0.024*** (0.001)	-0.023*** (0.001)	-0.023*** (0.001)
Floor-to-ceiling height	0.002*** (0.000)	-0.000 (0.000)	0.003*** (0.000)	0.002*** (0.000)
Timing of contract (quarterly)	Yes	Yes	Yes	Yes
Area dummy	Yes	Yes	Yes	Yes
Automated security, individual air conditioning, raised floor	Yes	Yes	Yes	Yes
R2	0.683	0.744	0.673	0.658
Adjusted R2	0.682	0.742	0.670	0.655
RMSE	0.20	0.19	0.19	0.20

Note: p value<0.001: *** Figures in brackets represent standard error.

Reference reports:

Deciphering Recent Rises in Vacancy Rates, published on October 1, 2021 (in Japanese only)
https://soken.xymax.co.jp/report/2110-rise_in_vacancy_rates.html

Deciphering Recent Rises in Vacancy Rates (2022), published on December 5, 2022 (in Japanese only)
https://soken.xymax.co.jp/report/2212-rise_in_vacancy_rates.html

The Future of the Office, published on May 8, 2023
https://www.xymax.co.jp/english/assets/pdf/news_research/20230508_2.pdf

Deciphering Changes in the Office Market, published on July 10, 2024
https://www.xymax.co.jp/english/assets/pdf/news_research/20240710.pdf

Deciphering Changes in the Office Market (2025), published on June 4, 2025
https://www.xymax.co.jp/english/assets/pdf/news_research/20250604.pdf

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