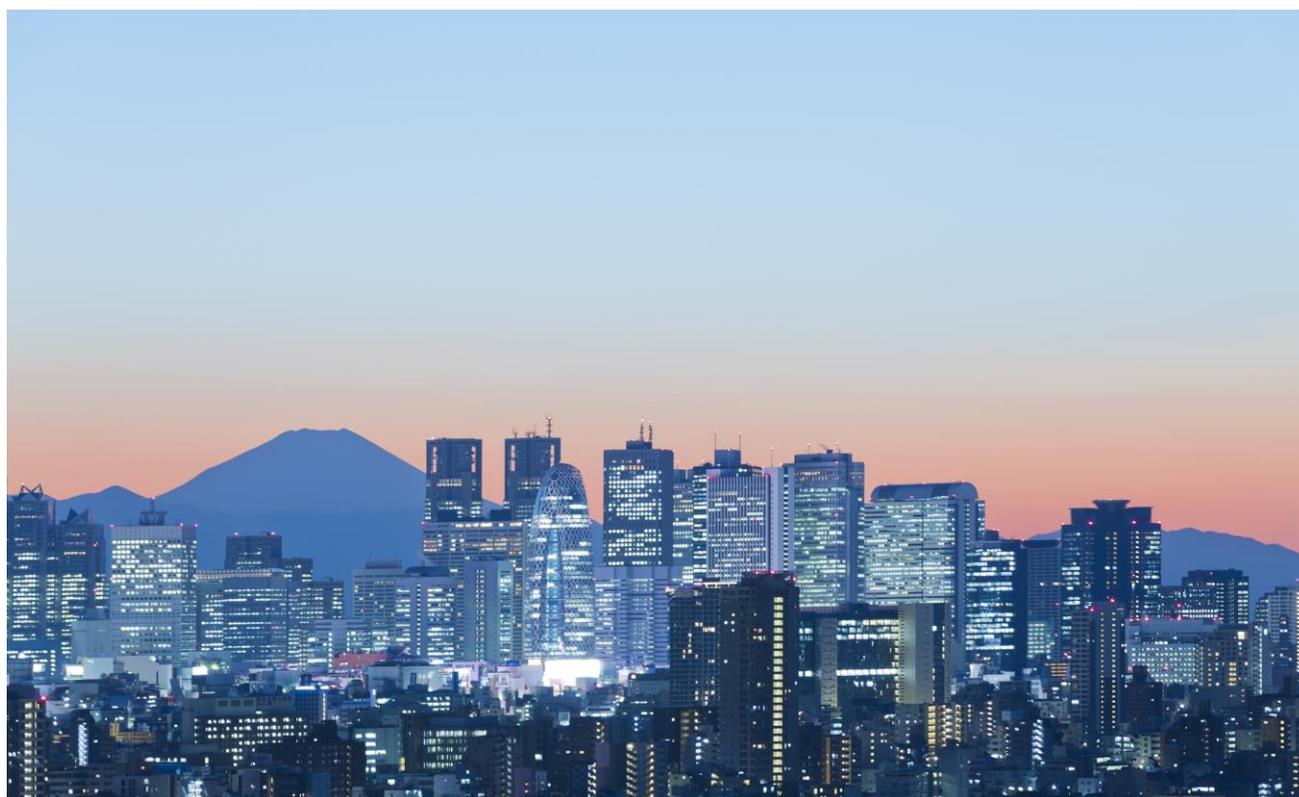


Office Market Report

Tokyo | Q4 2019

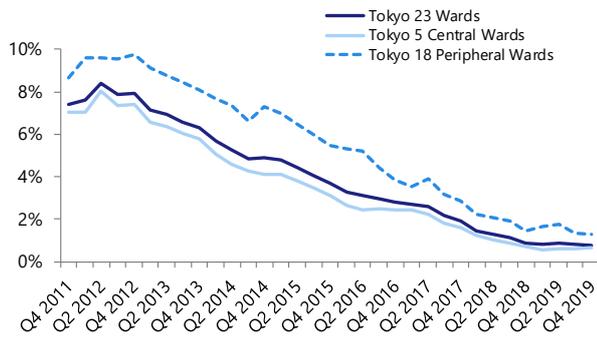
February 5, 2020



Summary

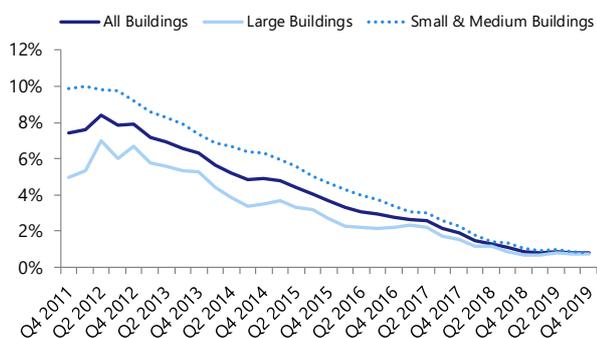
- In Q4 (October–December) 2019, the Tokyo 23 Wards' office market remained robust as demand for office space was strong due to increases in headcount and existing vacancies were filled promptly.
- The **vacancy rate** was 0.78%, down 0.01 points from the previous quarter. In terms of the **increase and decrease of vacancies**, the decrease exceeded the increase for the second consecutive quarter, as 54,000 tsubo (1 tsubo = 3.3 sqm) increased and 56,000 tsubo decreased. The **vacancy turnover ratio**, which is the rate of decrease of vacant office stock, dropped 3.1 points from the previous quarter to 46.6%.
- The **new contract rent index**, the level of new lease rent, was 128, down 7 points from the previous quarter. The **contract rent diffusion index**, which is the percentage of buildings with a new rent increase minus that of buildings with a new rent decrease, remained above zero for the nineteenth consecutive quarter at +38.
- The **paying rent index**, which includes both new and existing rents, was 100, up 2 points quarter on quarter.
- The **average free rent months of lease with free rent** was 1.3 months, 0.3 months less quarter on quarter, and ratio of free rent offered was 40.8%, down 5.1 percentage points.

Figure 1: Vacancy Rate (by Area)



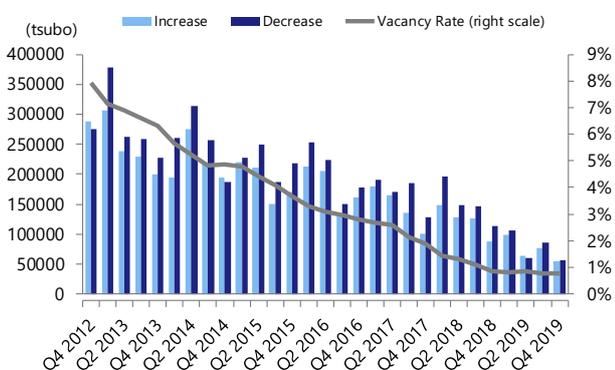
	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Tokyo 23 Wards	0.87%	0.81%	0.87%	0.79%	0.78%
Tokyo 5 Central Wards	0.69%	0.55%	0.59%	0.62%	0.63%
Tokyo 18 Peripheral Wards	1.46%	1.65%	1.77%	1.36%	1.28%

Figure 2: Vacancy Rate (by Size)



	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
All Buildings	0.87%	0.81%	0.87%	0.79%	0.78%
Large Buildings	0.70%	0.68%	0.79%	0.73%	0.74%
Small & Medium Buildings	1.06%	0.95%	0.96%	0.86%	0.83%

Figure 3: Increase and Decrease in Vacancies (23 Wards, All Sizes)



	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Increase	88,000	98,000	63,000	77,000	54,000
Decrease	113,000	106,000	60,000	86,000	56,000
Vacancy (right scale)	0.87%	0.81%	0.87%	0.79%	0.78%

Vacancy

Figure 1 shows the **vacancy rates** in Tokyo 23 Wards, 5 Central Wards (Chuo, Chiyoda, Minato, Shibuya, and Shinjuku Wards), and 18 Peripheral Wards since 2011. The rate in Q4 2019 dropped 0.01 points in the 23 Wards to 0.78%, rose 0.01 points in the 5 Central Wards to 0.63%, and dropped 0.08 points in the 18 Peripheral Wards to 1.28%.

Companies' needs for expanding their offices remain high, which has led to record low vacancy rates in the 23 Wards and the 18 Peripheral Wards.

The reasons for the drop in the vacancy rates include companies placing priority on securing office space regardless of location or age and formerly occupied spaces being filled from within the building without going on the market.

Figure 2 is the **vacancy rates** of all sizes of buildings, large buildings (gross floor area (GFA): 5,000 tsubo or more), and small & medium buildings (GFA: less than 5,000 tsubo) in Tokyo 23 Wards since 2011. In Q4 2019, the rate rose among large buildings by 0.01 points quarter on quarter to 0.74% and dropped among small & medium buildings by 0.03 points to 0.83%.

Figure 3 shows the **increase and decrease in vacancies**. The increase was 54,000 tsubo and the decrease was 56,000 tsubo in Q4 2019. The decrease exceeded the increase for the second consecutive quarter, as vacancies of existing properties were also promptly filled.

Both increases and decreases in vacancies were smaller in Q4 2019 than the previous quarter as there was fewer new supply of vacant space from the completion of office buildings.

Figure 4: Vacancy Turnover Ratio (4-quarter moving average)



Figure 4 shows the **vacancy turnover ratio (four-quarter moving average)**, the rate of vacancies leased to tenants during the quarter to all the vacant office stock (vacant office stock at the start of the quarter + vacancies added during the quarter). Although the ratio in Q4 2019 was down 3.1 points quarter on quarter to 46.6%, it remains at a high level. With the ratio trending at around 50% over the past year, vacancy turnover in the office market still seems to be active.

Figure 5: New Contract Rent Index



New Contract Rent

Figure 5 is the **new contract rent index**, the level of new lease rents. The index for Q4 2019 was 128, down 7 points quarter on quarter but up 5 points year on year. New rent has been rising since Q2 2012. Due to an extremely low vacancy rate in Tokyo 23 Wards and a shortage of vacant office stock in the market, some lessors took bullish stances and indicated higher asking prices than previously.

Figure 6: New Contract Rent Index (by Size)

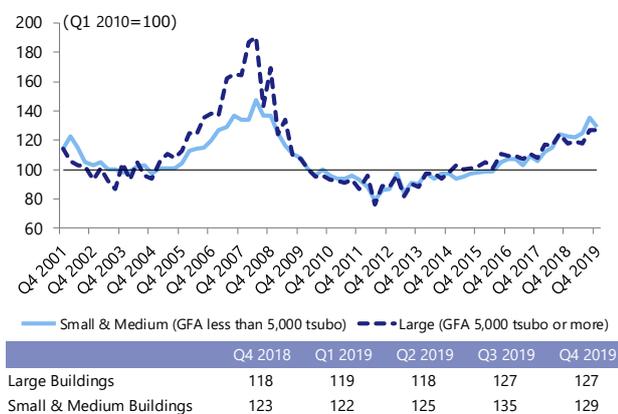


Figure 6 shows the new contract rent index **by size of building**. The index for large buildings with a GFA of 5,000 tsubo or more was flat at 127, while that for small & medium buildings with a GFA of less than 5,000 tsubo dropped 6 points from the previous quarter to 129. However, the rising trend since Q2 2012 has continued in both sizes of buildings.

Figure 7: Contract Rent DI

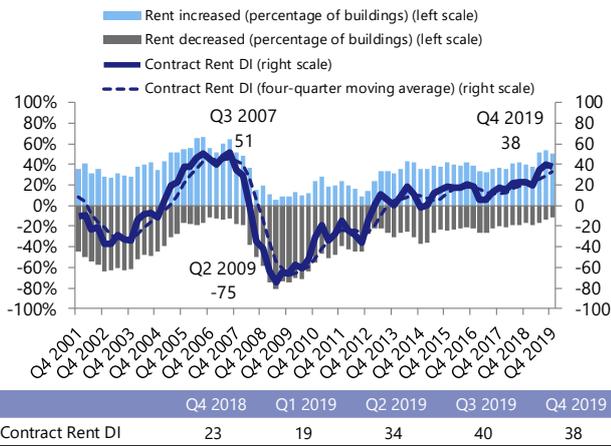
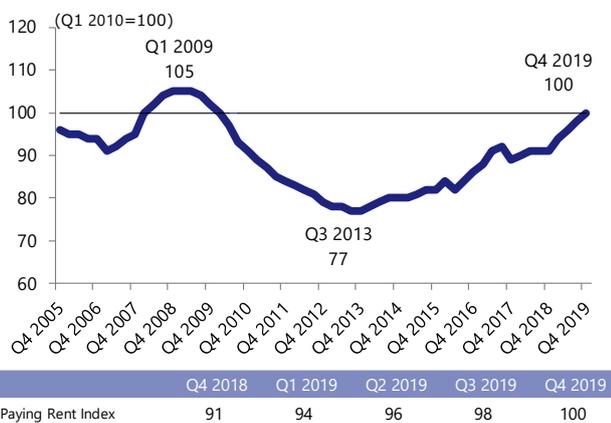


Figure 7 is the **contract rent diffusion index (DI)** (the percentage of buildings with rent rises minus the percentage of buildings with rent declines), which indicates the direction of changes in new contract rents. The DI in Q4 2019 was +38, indicating that there were more buildings with a higher new rent from six months ago than those with a lower rent. The DI has remained above zero for 19 consecutive quarters.

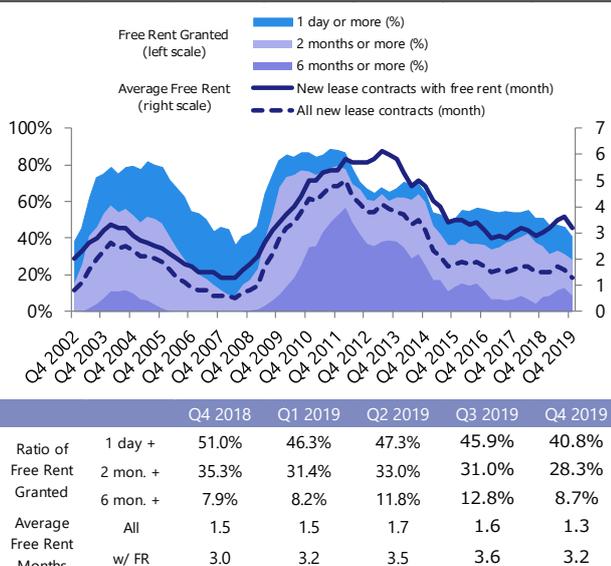
Figure 8: Paying Rent Index



Paying Rent

Figure 8 shows the **paying rent index**, which includes both new lease rents and existing lease rents. The index in Q4 2019 was 100, up 2 points quarter on quarter and up 9 points year on year. The upward trend since Q3 2013 has continued. Negotiations for raising new rent for new tenants as well as existing rent of existing tenants have been taking place due to a shortage of vacant office stock in the market, which have led to the rise in paying rent.

Figure 9: Free Rent

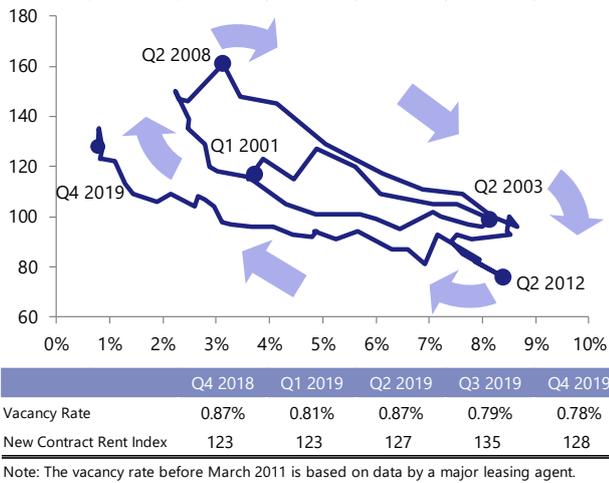


Free Rent

Figure 9 indicates the percentage of new lease contracts with free rent to all new lease contracts (**ratio of free rent offered**) and the average free rent period (**average free rent months**). In Q4 2019, the average free rent months were 3.2 months for leases with free rent, 0.4 months less quarter on quarter, and 1.3 months for all new leases, 0.3 months less quarter on quarter.

The ratio of free rent offered, which had been dropping since 2011, has remained flat since around 2016, indicating that the custom of offering free rent has spread across the market. The drop in both the ratio of free rent offered and average free rent months was likely a reflection of lessors' aggressive attitudes on free rent.

Figure 10: Market Cycle



Market Cycle

Figure 10 plots the vacancy rate on the horizontal scale and the new contract rent index on the vertical scale on a quarterly basis. It shows the cyclicity of the market, with the chart trending to the lower right in 2001 (vacancy up, rent down), remaining flat in 2003–2004, then trending to the upper left in 2005 (vacancy down, rent up) and to the lower right again in 2008 (vacancy up, rent down).

The office rental market entered a recovery phase in 2013, with the trend continuing in Q4 2019.

However, the chart moved to the lower left due to a mild drop in the vacancy rate and a decline in new rent compared to the previous quarter.

Reference

Figure 11: Major Building Completions (Q4 2019)

Name	Floors		Ward	Address	Completion	Total floor area (tsubo)
	Above Ground /	Below Ground				
Shibuya Parco Hulic Bldg.	19/3		Shibuya	15-1 Udagawacho	2019/10	19,317
Shibuya Fukuras	18/4		Shibuya	1-2-3 Dogenzaka	2019/10	17,838
Sumitomo Fudosan Akihabara First Bldg.	23/1		Chiyoda	1-5-1 Sotokanda	2019/10	7,915
CIRCLES Ginza	10/0		Chuo	3-7-6 Ginza	2019/11	658

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

Figure 12: Major Office Relocations (Q4 2019)

Company	From	To	Month Year	Purpose	Size (tsubo)
OZAX	Uchikanda Suisui Bldg. <i>Chiyoda Ward</i>	Jinbocho Kita Tokyu Bldg. <i>Chiyoda Ward</i>	Jan. 2020	Greater efficiency	801
QUICK	Nihonbashi Mitsui Tower <i>Chuo Ward</i>	KABUTO ONE <i>Chuo Ward</i>	Summer 2021	Greater efficiency	2,466
Isuzu Motors	Omori Bellport Bldg. A <i>Shinagawa Ward</i>	Yokohama Gate Tower <i>Yokohama city</i>	May 2022	Greater efficiency	9,000
Kanematsu	SEAVANS North <i>Minato Ward</i>	JP Tower <i>Chiyoda Ward</i>	Autumn 2022	Greater convenience	1,936

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

The sizes of office space are estimates.

Survey Overview				
	Vacancy Rate	Increase and Decrease in Vacant Space	Vacancy Turnover Ratio	New Contract Rent Index
Description	Vacant 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	8,516 buildings	3,899 contracts	3,899 contracts	1,165 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. <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"> • Increase in volume of vacant space <ol style="list-style-type: none"> a. Space in existing buildings formerly occupied by tenants b. Total rentable area of new completions • Decrease in volume of vacant space <ol style="list-style-type: none"> 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) The New Contract Rent Index is the rent estimated in the preceding step based on Q1 2010 as the base point (=100). <p>This model shows changes in new contract rents after removing property-specific variables.</p>

	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	586 contracts	4,119 contracts	265 contracts
How to Calculate	<ol style="list-style-type: none"> 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" 2) Calculate the percentage of buildings with "rent decrease" and buildings with "rent increase". 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). 	<ol style="list-style-type: none"> 1) Calculate the rent per tsubo of each tenant from the data of new and existing lease contracts and memorandums. 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.). 3) Estimate a quarterly contract rent by assigning the values of a typical building to the model developed in the preceding step. 4) The Paying Rent Index is the rent estimated in the preceding step based on Q1 2010 as the base point (=100). <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 The period between the start of the contract and the start of the rent, shown in number of days. • 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. • Average Free Rent (Month) of Contracts with Free Rent The simple average of the free rent period of lease contracts with free rent. <p>In some cases, the rent agreed in a lease contract includes CAM charge, and then, for a certain period of time, the rent is reduced to the CAM charge equivalent or closer level, but such contracts are excluded from this research.</p>

Appendix: Xymax REI Research Updates (November 2019 – January 2020)

Analysis of the Economics of Green Buildings in Tokyo's Office Market November 20, 2019

- This report is a comparison of the economic effects of green labels with the previous results amid a volatile office market and an examination of the causes of the effects.

Metropolitan Areas Office Demand Survey Autumn 2019 November 27, 2019

- This report is an analysis of the relationship between office demand and the results of a semi-annual survey on companies' use of offices and workstyles that has been carried out since autumn 2016.

Building Owner Survey 2019 December 17, 2019

- This report is a compilation of the results of a questionnaire survey and interviews on the current management state of the building lease business, its outlook, and responses to changes in the environment surrounding the buildings.

Greater Tokyo Office Worker Survey 2019 December 19, 2019

- This report is a summary of the actual workstyles and values of workers working in Greater Tokyo, based on the results of a questionnaire survey conducted to capture changes in workstyles and the workplace from the perspectives of both companies and office workers.

Reflections on Future Commercial Facilities December 24, 2019

- This report summarizes the hints and directions of considering the trend of commercial facilities in the near future, such as the points to bear in mind for the survival of Japan's commercial facilities.

Relationship between Flexible Workstyles and Productivity December 26, 2019

- This report analyzes and summarizes the results of company surveys and office worker surveys to prove that flexible workstyles—flexible locations in particular—are beneficial not only to the workers but also to companies.

Supply of New Office Space 2020 January 8, 2020

- This report is a summary of the results of an annual aggregation of office lease area, targeting buildings with a gross floor area of at least 3,000 tsubo used mainly for offices and completed in Tokyo 23 Wards and Osaka City.

Office Stock Pyramid 2020 January 10, 2020

- This report is a summary of the results of an aggregation of office lease area and number of buildings by size and age of building, targeting buildings with a gross floor area of at least 300 tsubo used mainly for offices in Tokyo 23 Wards and Osaka City.

Current Status of Hotel Management 2019 January 29, 2020

- This report is a summary of the results of a questionnaire survey of hotel operators on matters considered to have an especially large effect on hotel operation, such as the condition of the hotel business, responses to foreign lodgers, situation of buildings and equipment, disaster control measures, and labor shortage.

Flexible Office Market Survey January 31, 2020

- This report is a summary of the results of an independent collection and analysis of data such as the area and launch year of flexible offices in Tokyo 23 Wards in order to quantify the growth trend of the overall market.

Please contact below for inquiries on this report

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