

NEWS & RELEASE

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Downtime of New Lease in Tokyo: 98.5 days (approx. 3.3 months)

FY2012 (April 2012 - March 2013)

Xymax studied the length of downtime (vacancy period) of office spaces.

Downtime, which is the period of time between the end of a prior lease and the new lease starts, is a concern for various types of real estate players including building owners and investors because it is a period of loss of profits. Nevertheless, no such data or index representing actual conditions was available until now. Xymax Real Estate Institute therefore conducted studies on downtime in office buildings to capture the actual situation.

In this issue, days of downtime of new lease signed in FY2012 were counted and analyzed.

Key findings

□ Downtime of new lease signed in FY2012

Tokyo 23 Wards Office: 98.5 days (approx. 3.3 months)

Other Areas Office: 196.0 days (approx. 6.5 months)

- Of the office spaces in Tokyo 23 Wards, downtime was 90.5 days (approx. 3.0 months) in Central Five Wards and 121.5 days (approx. 4.0 months) in other wards.

□ In Tokyo 23 Wards, approx. 17% had no downtime (0 day), and approx. 50% had downtime of less than 3 months

□ Analysis

- Buildings constructed under New Seismic Standards have shorter downtime than those constructed under Old Seismic Standards.
- No particular correlation between the size of rentable area (small/large) and the length of downtime (short/ long) was found.

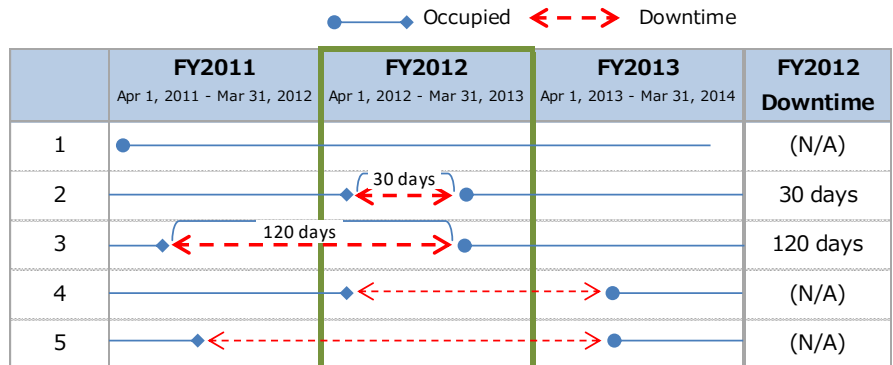
Downtime (vacancy period) is the period of time from the end of a prior lease and the start of a new lease. In other words; it is the period with no lease contract. No rental income is generated during this period, and therefore it is important to capture the actual trends of downtime when estimating the impact on income stream or value of the property in real estate investment and appraisal. The period with no rental income is actually longer than downtime as some new leases often have a free rent period for the initial few months of the lease. Thus the period with no rental income refers to the total of downtime and free rent period. Office tenants in Japan usually submit a cancellation notice six months prior to their departure, and building owners start leasing activities following some preparation period after they received a cancellation notice. The period of leasing activities starts with marketing the space to potential tenants and ends with the signing of the new lease.

Xymax Real Estate Institute is currently pursuing constructive studies on downtime and willing to provide data that is useful in understanding the real estate market from a multilateral point of view.

Downtime (Vacancy Period) Estimation

Downtime is estimated based on the data of new lease contracts signed in FY2012 for office spaces in buildings under management by Xymax Group. Accordingly spaces remained vacant at the end of FY2012 were not included in the data (Figure 1).

Figure 1: Estimation of Downtime FY2012



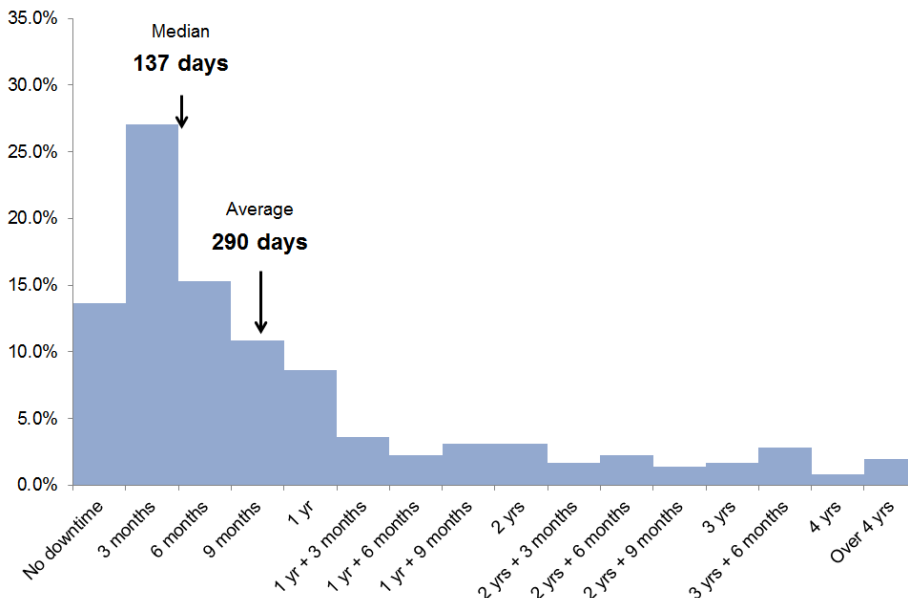
The vacancy period (from the expiration of a prior lease to the start of a new lease) is calculated with the data of a prior lease contract for the same space (Figure 1). The data for FY2012 includes 360 cases in Japan including 165 in Tokyo 23 Wards. In this study, the median of each is regarded as downtime.

* The free rent period is not included in this downtime because it starts from the beginning of the new lease.

Reference: Median and Average

Figure 2 shows distribution of downtime in overall Japan. About 70% of the lease had less than one year downtime while some of the other leases had very long downtime like three or four years. As a result, the average downtime is raised by such numbers. We decided to use the median as downtime in this study.

Figure 2: Downtime Distribution in FY2012 (Japan)



Downtime of Office Spaces in Tokyo 23 Wards in FY2012 was 98.5 days (approx. 3.3 months)

Our studies found that the median of downtime of office spaces in Tokyo 23 Wards is 98.5 days (approx. 3.3 months) and that for other areas was 196 days (approx. 6.5 months) in FY2012 (Figure 3).

Distribution of downtime shows that 16.5% of office spaces in Tokyo 23 Wards had no downtime, meaning the new tenant has signed the lease before the expiration of the lease with the prior tenant. Also it shows that the remaining 32.9% of the vacant spaces were leased to tenants within three months, suggesting that about half of the office spaces were leased within a relatively short period of time.

In contrast, some spaces in areas outside of Tokyo 23 Wards tend to have a long downtime, representing the disparity between Tokyo and other areas.

Figure 3: Downtime FY2012 (Tokyo 23 Wards, Other Regions)

		Tokyo 23 Wards	Other
Median		98.5	196.0
No Downtime		16.5%	11.3%
Downtime	Within 3 months	32.9%	22.1%
	3 months - 6 months	16.5%	14.4%
	6 months - 1 year	14.0%	24.1%
	1 year - 2 years	13.4%	10.8%
	Over 2 years	6.7%	17.4%

Downtime by Location (Tokyo Central Five Wards, Other Wards)

Comparison of downtime in Tokyo 23 Wards office buildings by location found that downtime in Central Five Wards was 90.5 days (approx. 3.0 months), shorter than 121.5 days (approx. 4.0 months) in other wards (Figure 4). The table also shows that many office spaces in other wards had no downtime.

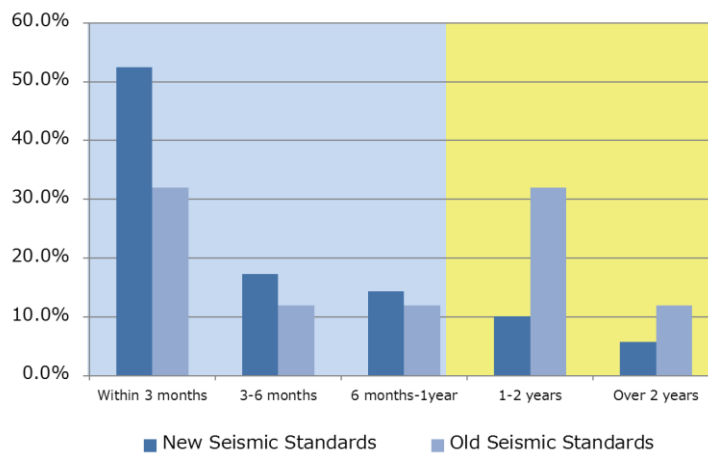
Figure 4: Downtime FY2012 (Tokyo Central Five Wards, Other Wards)

		Tokyo Central Five Wards	Other Wards
Median		90.5	121.5
No Downtime		14.7%	20.8%
Downtime	Within 3 months	37.1%	22.9%
	3 months - 6 months	13.8%	22.9%
	6 months - 1 year	12.1%	18.8%
	1 year - 2 years	14.7%	10.4%
	Over 2 years	7.8%	4.2%

Downtime by Seismic Standards (Buildings constructed under new/old seismic standards)

Further analysis using downtime data for Tokyo 23 Wards was conducted. Based on the year of completion, the buildings were divided into categories: buildings constructed under the new seismic standards and buildings constructed under the old seismic standards (Figure 5). The office spaces with downtime of less than one year were more likely to be found in buildings constructed under the new seismic standards while the office spaces with downtime of over one year were more likely to be found in buildings constructed under the old seismic standards.

Figure 5: Downtime by Buildings under New/Old Seismic Standards (Tokyo 23 Wards, FY2012)



Downtime by Size of Rentable Area

Whether there is any tendency between the rentable area and downtime were also studied. The scatter plot in Figure 6 shows the correlation between them. As shown, no particular correlation was found between the size of office space and the length of downtime.

Figure 6: Size of Office Space and Downtime (Tokyo 23 Wards, FY2012)

