

# NEWS & RELEASE

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## **Contract rent and free rent both show improvements in Tokyo's office market**

### **Xymax to release office lease indices covering small, medium and large properties**

Xymax Real Estate Institute released the "Contract Rent Diffusion Index" (Contract Rent DI) developed using the office lease data Xymax Group has collected and accumulated over time. Based on this index, Xymax Real Estate Institute analyzed the market movements and compared the index with the asking rent data. In addition, to understand the actual lease terms and conditions agreed, the free rent offer trends were also studied.

#### **KEY FINDINGS**

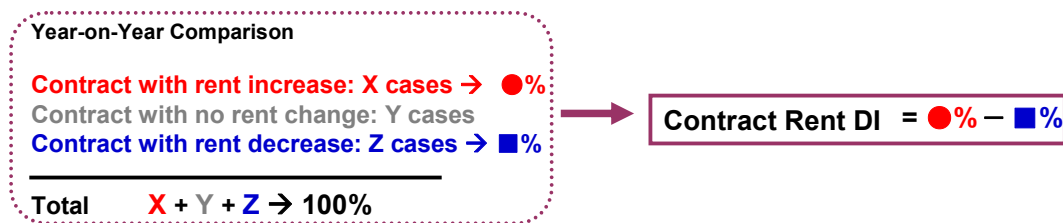
- In the analysis of office leases in Tokyo 23 wards, buildings with new lease contract agreed in two consecutive years (FY2012 and FY2011) were used as sample data. Though many buildings continued to see their contract rents to decrease year-on-year in FY2012, the number of such buildings were fewer than the previous year, indicating that the Contract Rent DI is on track for recovery.**
- In the analysis of rent volatility, the year-on-year rent decreases in FY2012 were smaller while the year-on-year rent increases in FY2012 were greater, improving average rent volatility to +0.5%.**
- Market changes are timely reflected in contract rent, ahead of the more publicly available data like asking rent.**
- More free rent offers and longer rent-free period had been seen since FY2009 but the rally slowed in FY2012, indicating that the market is moving toward recovery.**

Most of the publicly available office market data are based on asking rent. Only a few are based on contract rent which more properly reflects the current market conditions. Also, free rent is often offered by building owners to promote leasing activities in Japan but is rarely included in the publicly available market information. What is more, there are almost no such studies that cover small and medium office buildings. Xymax Real Estate Institute will continue to study and analyze the lease office market trends with its original data and share the findings with market participants.

**Contract Rent DI & Average Volatility**

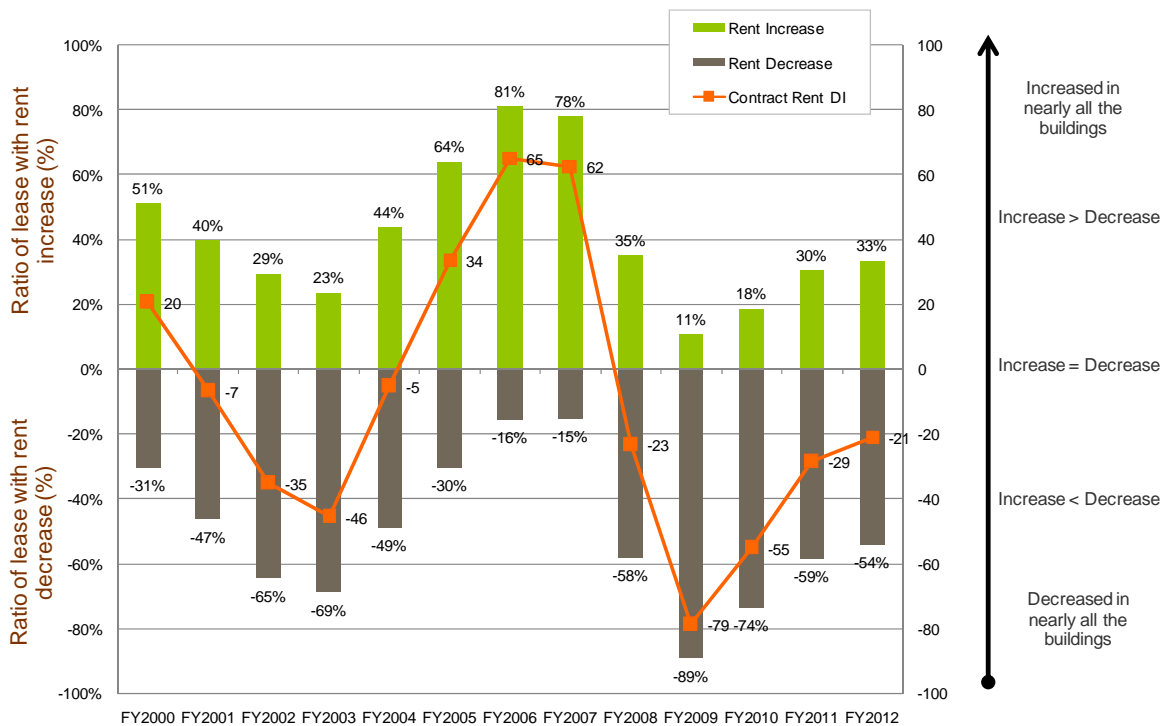
The Contract Rent DI is an index developed by Xymax Real Estate Institute to measure real estate market trends using the contract rent data.

Xymax Group, a real estate management company in Japan, collected leasing data directly from its business activities and used the data to compare the actual agreed rent in a particular year with that in the previous year. Each sample was counted separately into three categories (“rent increase”, “no change”, and “rent decrease”). The index is estimated by subtracting the ratio of “rent decrease” from the ratio of “rent increase”. Approximately 60-200 samples collected in Tokyo 23 wards are applied for each year.



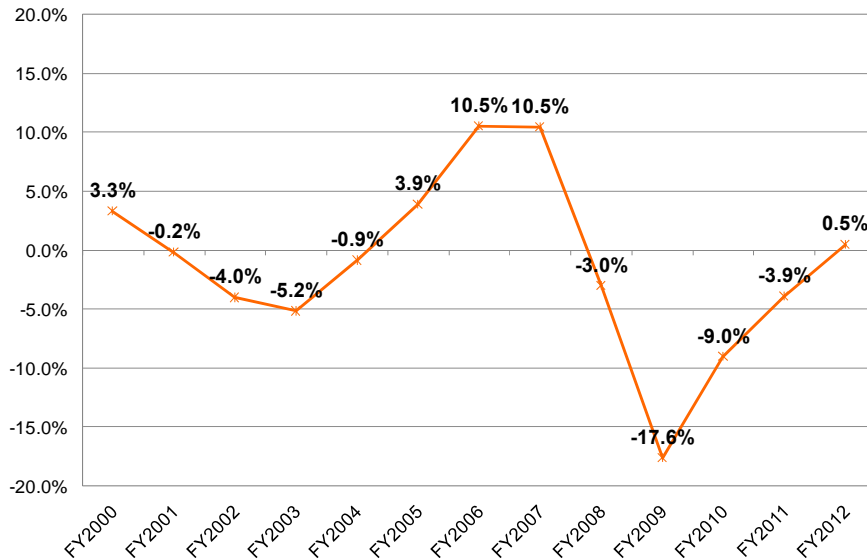
The Contract Rent DI for Tokyo 23 wards office buildings in FY2012 remained negative, at -21, showing that the contract rent continues to decrease year-on-year (Figure 1). The detailed analysis, however, shows that there were more “rent increase” and “no change” than year ago while “rent decrease” was fewer, indicating that the market is about to make a turnaround and showing signs of picking up.

Figure 1: Contact Rent DI (Tokyo 23 Wards)



The rent decrease in the lease contract agreed in FY2012 was smaller than that in the year ago while the rent increase in the lease contract agreed in FY2012 was greater than that in the year ago, improving the rent volatility to +0.5%, the first positive figure in five years (Figure 2).

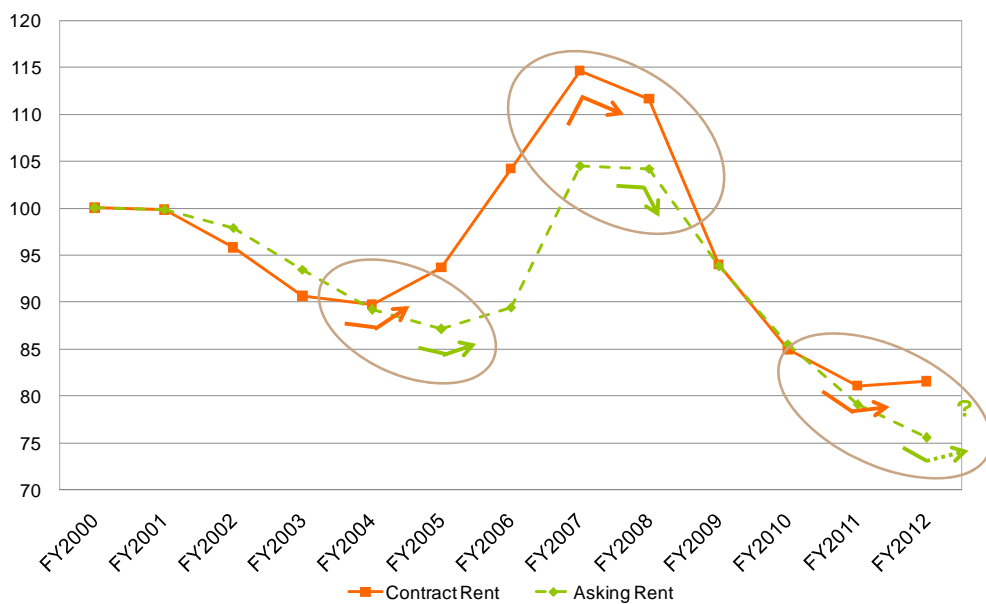
Figure 2: Contract Rent Average Year-on-Year Volatility (Tokyo 23 Wards)



**Contract Rent & Asking Rent Comparison**

The below Figure 3 compares the index based on the average volatility of contract rent and that of publicly available asking rent data (FY2000 = 100). The figure shows that the contract rent index is a more leading indicator as it timely reflects the market changes than the asking rent index.

Figure 3: Rent Volatility Index (Contract Rent & Asking Rent)

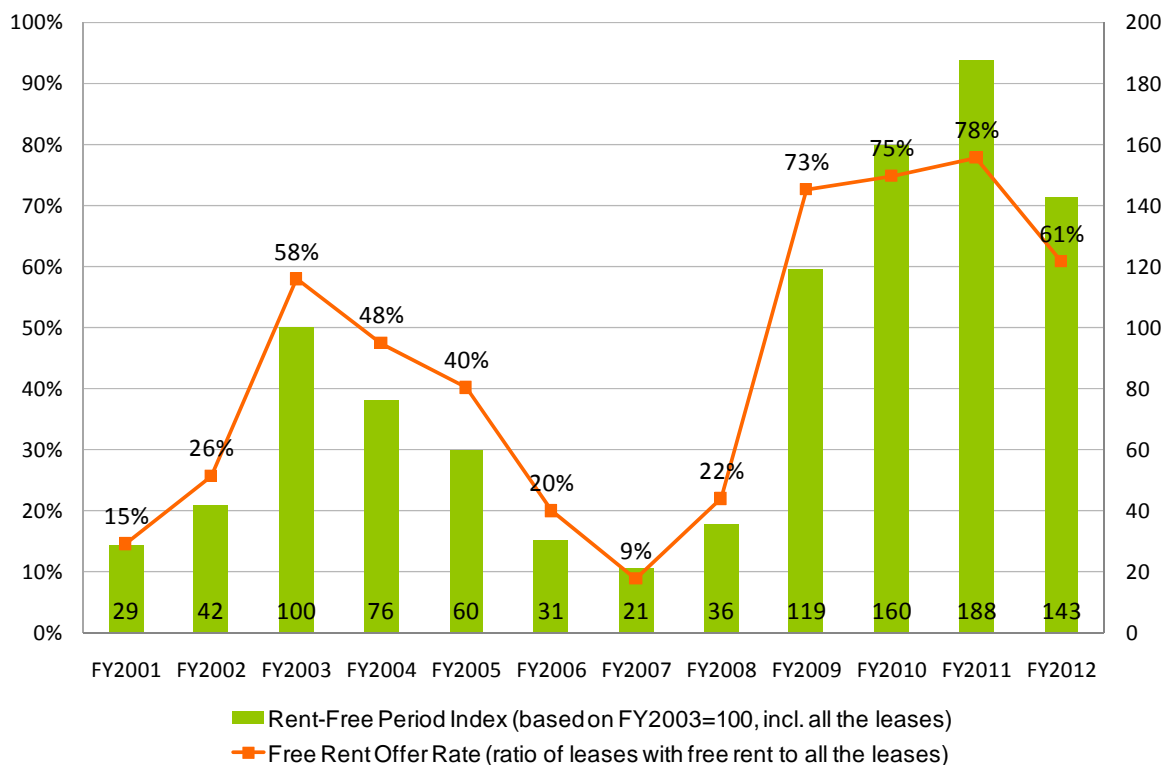


**Free Rent Offer Rate & Rent-Free Period Index**

Of the lease contract data Xymax Group directly collected (new lease only, excluding expansion of leased area within the same building), the lease contract with two-month or longer rent-free period was counted and the ratio of that to all the lease contracts was named “Free Rent Offer Rate” (\*). In addition to this index, the average rent-free period (the sample data includes lease contracts with no free rent) is studied based on FY2003 = 100 and named “Rent-Free Period Index”.

The Free Rent Offer Rate for FY2012 was 61%, down 17 points year-on-year, showing downward trends (Figure 4). The Rent-Free Period Index for FY2012 was 143, a drop of 45 points year-on-year. Free rent is often used as alternative to rent reduction. Following the financial crisis in 2008, owners of medium-size office buildings provided free rent to fill vacant spaces but the situation seems to be recovering. Although the free rent offers and rent-free period still remain stagnant, it is expected to be fewer and shorter as market recovers for the future.

Figure 4: New lease contract with free rent (Tokyo 23 wards)



(\*) Originally rent-free period is given to tenants to avoid double rent payments (for the current office and new office). In such case, two-month rent-free period is typical in practice. In other words, longer rent-free period is deemed as rent reduction or rent abatement. In this study, to measure this abatement, two-month or longer rent-free period is regarded as free rent offers.