

# NEWS & RELEASE

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## Tokyo Office Space Market Index Q3 2014

Contract Rent DI | New Contract Rent Index | Ratio of Free Rent Granted | Average Free Rent (Month)

Xymax Real Estate Institute releases the third quarter 2014 results of the office space market indices: Contract Rent DI, New Contract Rent Index, Ratio of Free Rent Granted and Average Free Rent (Month).

Tokyo 23 Wards Office Space Market Index (Q3 2011 – Q3 2014)

		Q3 2011	Q3 2012	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Contract Rent DI		-28	-36	6	0	9	19	11
New Contract Rent Index		93	82	87	87	94	91	94
Free Rent	Granted (All Contracts)	88.2%	70.7%	64.6%	66.1%	69.9%	68.6%	70.0%
	Average Month	4.8	4.1	3.9	3.8	3.7	3.3	3.5

- See links below and Page 6 of this report for details of the indices.  
 Contract Rent DI [http://www.xymax.co.jp/english/research/images/pdf/131211\\_News-release.pdf](http://www.xymax.co.jp/english/research/images/pdf/131211_News-release.pdf)  
 New Contract Rent Index <http://www.xymax.co.jp/english/research/images/pdf/20140919-04.pdf>  
 Free Rent <http://www.xymax.co.jp/english/research/images/pdf/20140919-03.pdf>
- We have reviewed some free rent data and revised the quarterly numbers from the previous release.
- Numerical data is available at the end of this report.

- Contract Rent Diffusion Index (DI) was +11, recorded three consecutive positive quarters, which means the number of buildings with a rent increase was higher than the number of buildings with a rent decrease. The overall rental growth is, however, yet to come as the positive range remained flat.
- New Contract Rent Index (Q1 2010 = 100), which shows the level of contract rent, was 94; +3 quarter-on-quarter and +7 year-on-year. The contract rent level is growing modestly after the bottom in 2012.
- Ratio of Free Rent Granted (All Contracts) was 70%; +1.4 points quarter-on-quarter. Average Free Rent (Month) was 3.5 months; +0.2 months quarter-on-quarter. The grant ratio remained high, but the average free rent shown in months is becoming shorter due to a decrease of long-term free rent.

The overall Tokyo 23 wards office space market is on track for a slow recovery, supported by strong demand for office spaces as IT and staffing sectors are having buoyant business results and adding workers. Other factors are that the large buildings, supplied around 2012, have been generally taken up, and there is limited new supply expected in the near term.

The market is split into two different directions: recently constructed large buildings are more in short supply as tenants continue to show strong interests, whereas buildings that failed to attract tenants continue to see a rent decrease.

## Contract Rent DI

Figures 1 and 2 show Contract Rent DI for Tokyo 23 wards and central three wards (Chiyoda, Chuo, and Minato) for the past ten years (Q3 2004 – Q3 2014). The third quarter of 2014 recorded +11 for Tokyo 23 wards and +8 for the central three wards. The contract rent continued to show growing trends with the three consecutive quarterly increases, which means the number of buildings with a rent increase was higher than the number of buildings with a rent decrease.

The buildings with a rent increase accounted for 42% of all the contracts in the third quarter of 2014, a continuous gradual increase over two years from 9% in Q3 2012, whereas the buildings with a rent decrease remained at around 20%-30%. This shows that it is not an overall growth but a market split into two different directions.

Figure 1: Contract Rent DI in Tokyo 23 Wards

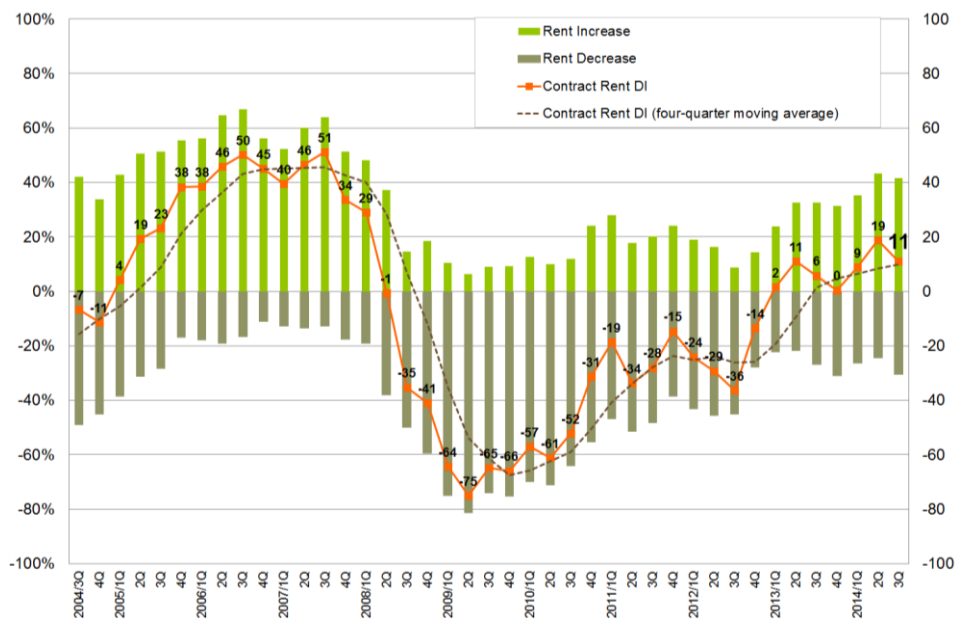
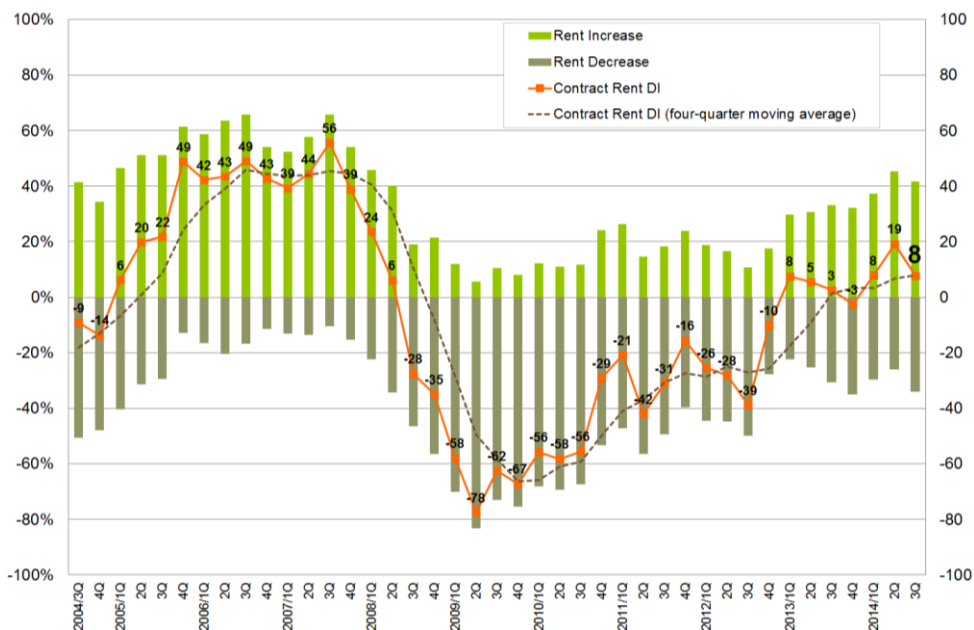


Figure 2: Contract Rent DI in Tokyo's Central Three Wards



### New Contract Rent Index

Figure 3 shows New Contract Rent Index (Q1 2010 = 100) in Q1 2001 - Q3 2014. The third quarter of 2014 recorded 94; an increase of 3 points quarter-on-quarter and 7 points year-on-year. The contract rent level is growing modestly after the bottom in 2012 at 76.

Figure 3: XyMAX New Contract Rent Index in Tokyo 23 Wards

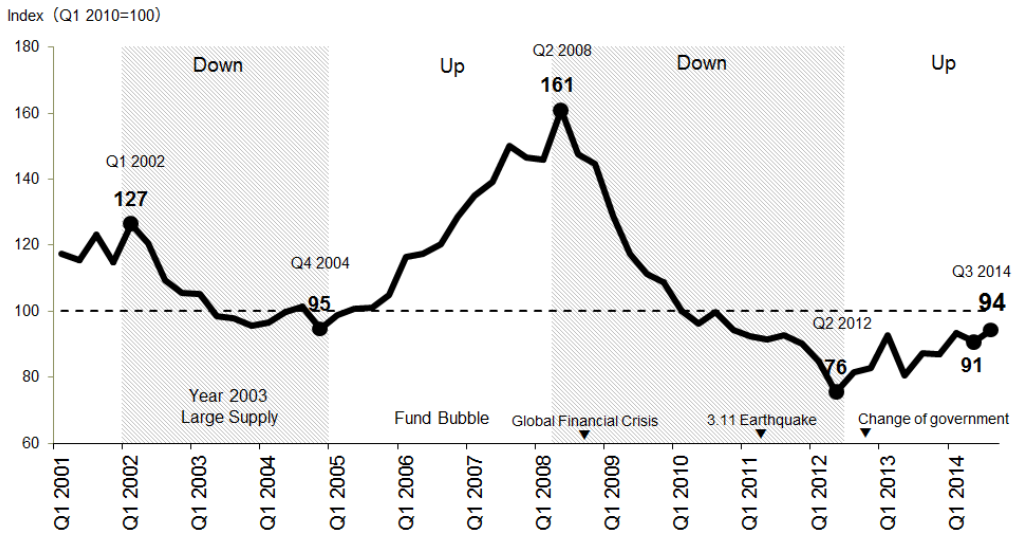
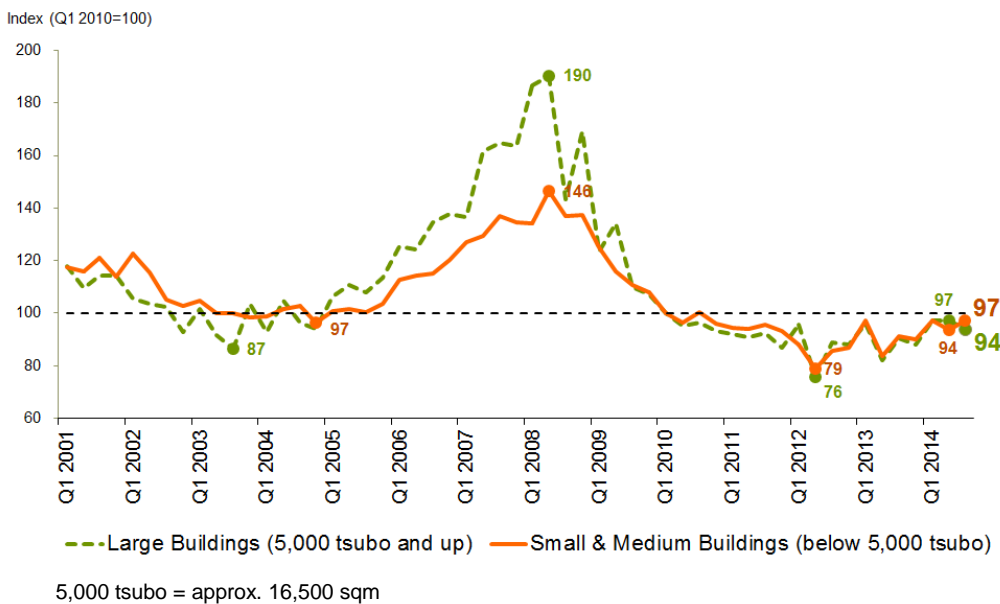


Figure 4 shows New Contract Rent Index by large office buildings (gross floor area: 5,000 tsubo and up) and small/medium office buildings (below 5,000 tsubo). Large buildings saw a 3-point drop whereas small/medium buildings saw a 3-point rise.

Figure 4: XyMAX New Contract Rent Index in Tokyo 23 Wards by Large Buildings & Small/Medium Buildings



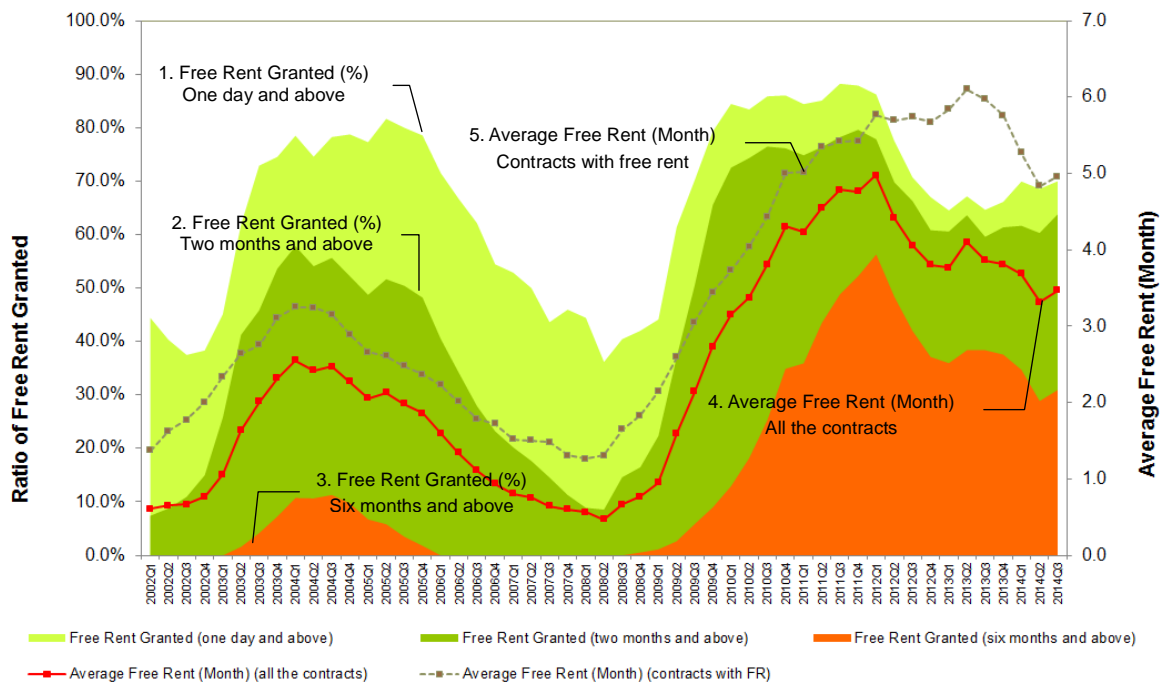
## Ratio of Free Rent Granted & Average Free Rent (Month)

Figure 5 shows free rent in new contracts.

Compared to the previous quarter, all the Free Rent Granted categories (1. One day and above, 2. Two months and above and 3. Six months and above) recorded increases. Average Free Rent (Month) also increased quarter-on-quarter for the both categories (4. Average of all the contracts, 5. Average of contracts with free rent).

Compared to the same quarter year ago, the ratio of six months and more free rent granted and the average free rent in months for both categories (all the contracts / contracts with free rent) have decreased. It can be said that the average month decreased because fewer buildings offered contracts with a long-term free rent.

Figure 5: Free Rent for New Lease in Tokyo 23 Wards



		Q3 2011	Q3 2012	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Ratio of Free Rent Granted	1. One day and above	88.2%	70.7%	64.6%	66.1%	69.9%	68.6%	70.0%
	2. Two months and above	78.2%	66.3%	59.6%	61.4%	61.7%	60.3%	63.8%
	3. Six months and above	48.8%	42.0%	38.4%	37.6%	34.7%	28.9%	31.0%
Average Free Rent (Month)	4. All the contracts	4.8	4.1	3.9	3.8	3.7	3.3	3.5
	5. Contracts with free rent	5.4	5.7	6.0	5.8	5.3	4.8	5.0

We have reviewed some free rent data and revised the quarterly numbers from our previous release.

### Market Analysis: Combining Three Indices

Figure 6 shows New Contract Rent Index and Contract Rent DI in one graph.

The combined data shows a trend of contract rent to increase when DI is positive and decrease when DI is negative. A rapid increase of contract rent was seen in 2006-2007 when DI was showing a strong positive growth. In contrast, a rapid decrease of contract rent was seen in 2008-2010 when DI was strong negative.

The combined graph can be used as a tool to analyze the speed of rent changes. DI for the third quarter of 2014 was +11, which is a positive growth but the pace of growth is moderate.

Figure 6: New Contract Rent Index & Contract Rent DI in Tokyo 23 Wards

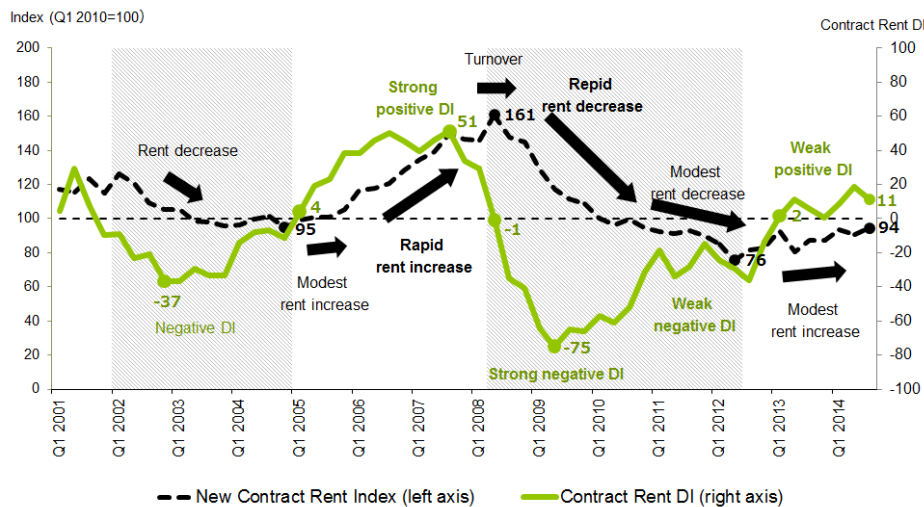
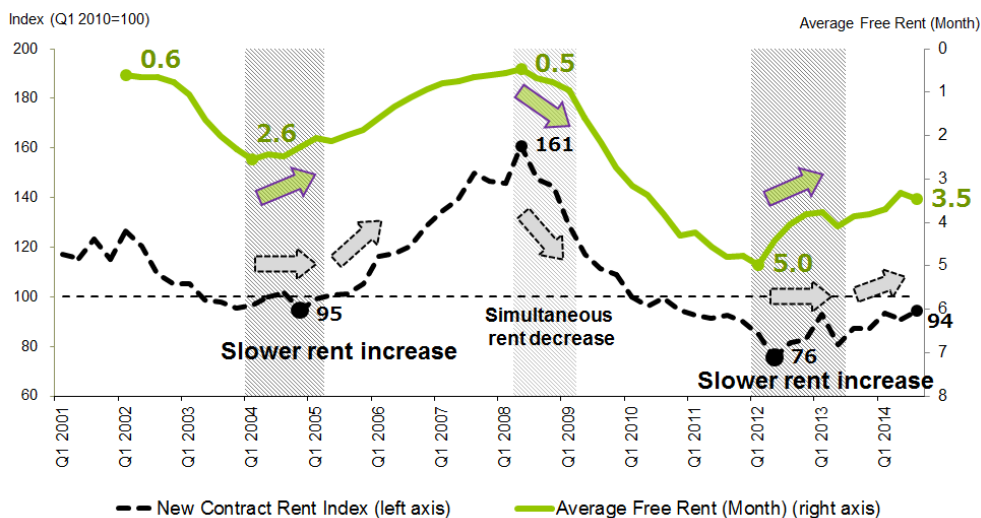


Figure 7 shows New Contract Rent Index and Average Free Rent (Month) for all the contracts in one graph. (In the graph, the axis of the free rent was turned around to match with the up and down market trends.)

As shown, although the ups and downs of the two data are linked, a market recovery comes faster for free rent and then followed by a recovery in rent. This indicates that free rent is acting as an adjuster for a recovery of actual rental income.

Figure 7: New Contract Rent Index & Average Free Rent (Month) (All the Contract) in Tokyo 23 Wards



## Index Outline

	Contract Rent DI	New Contract Rent Index	Ratio of Free Rent Granted & Average Free Rent (Month)
Feature	Changes in contract rent	Contract rent level	Market movements that are not reflected in contract rent
Sector	Office building	Office building	Office building
Area	Tokyo 23 wards / 3 wards	Tokyo 23 wards	Tokyo 23 wards
Building Size	Overall	Overall / Large / Small & Medium	Overall
Reporting Frequency	Quarterly	Quarterly	Quarterly
Period	Since Q1 2001	Since Q1 2001	Since Q1 2002
Data Source	Contract rent data (incl. CAM) originally collected by Xymax	Contract rent data (incl. CAM) originally collected by Xymax	Contract data collected from buildings managed by Xymax
Data Volume	Average: 400 per quarter 828 in Q3 2014	Average: 800 per quarter 1,009 in Q3 2014	Average: 150 per quarter 210 in Q3 2014
Calculation	<p>1) Compare the data of contract rent per tsubo in a particular period with that in the 6-month prior period in the same building. Each data was counted separately into three categories ("rent increase", "no change", and "rent decrease").</p> <p>2) Subtract the ratio of "rent decrease" from the ratio of "rent increase"</p> <p>3) The figure derived above is referred to as the Contract Rent Diffusion Index (DI).</p>	<p>1) Developed a rolling hedonic model (overlapping period: five quarters) based on the collected new contract data with factors like location, gross floor area, building age, facilities, and date of signing of lease as variables.</p> <p>2) Quarterly contract rent is estimated by assigning the attribute values of a typical building to the model developed in 1.</p> <p>3) The amount of the contract rent estimated in 2 based on Q1 2012 as base point (=100) is referred to as the New Contract Rent Index.</p> <p>This model can present historical changes in contract rent reflecting the adjusted variables such as location, size, age and facilities of the building.</p>	<ul style="list-style-type: none"> <li>• Free rent period The period from the start of contract to the start of rent, shown in days.</li> <li>• Ratio of Free Rent Granted The percentage of contracts with free rent in all the new contracts (excl. expansions within the building and recontracts)</li> <li>• Average Free Rent (Month) (All Contracts) The simple average of the free rent period including lease contracts with no free rent.</li> <li>• Average Free Rent (Month) (Contracts with Free Rent) The simple average of the free rent period of lease contracts with free rent</li> </ul> <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 level or closer to that level, but such contracts are excluded from this research.</p>

## Numerical Data

	Contract Rent DI		New Contract Rent Index			Free Rent				
	Tokyo 23 Wards	Tokyo 3 Wards	Overall	Large Buildings	Small & Medium	1 day + Granted	2 months + Granted	6 months + Granted	All Contracts Average Month	Contracts with FR Average Month
Q1 2001	4	50	117	118	118	-	-	-	-	-
Q2 2001	29	43	115	110	116	-	-	-	-	-
Q3 2001	7	17	123	114	121	-	-	-	-	-
Q4 2001	-10	-9	115	114	114	-	-	-	-	-
Q1 2002	-9	-20	127	106	123	44.4%	7.4%	0.0%	0.6	1.4
Q2 2002	-23	-33	120	103	115	40.4%	8.8%	0.0%	0.7	1.6
Q3 2002	-21	-17	109	102	105	37.5%	10.9%	0.0%	0.7	1.8
Q4 2002	-37	-55	105	93	103	38.3%	15.0%	0.0%	0.8	2.0
Q1 2003	-37	-27	105	101	105	45.2%	25.8%	0.0%	1.1	2.3
Q2 2003	-29	-29	99	92	100	61.9%	41.3%	1.6%	1.6	2.6
Q3 2003	-33	-36	98	87	100	72.9%	45.8%	4.2%	2.0	2.8
Q4 2003	-34	-34	96	104	98	74.5%	53.6%	7.3%	2.3	3.1
Q1 2004	-14	-19	97	93	99	78.5%	57.9%	10.7%	2.6	3.3
Q2 2004	-8	-10	100	105	102	74.6%	54.1%	10.7%	2.4	3.2
Q3 2004	-7	-9	102	96	103	78.3%	55.7%	11.3%	2.5	3.2
Q4 2004	-11	-14	95	94	97	78.8%	52.2%	9.7%	2.3	2.9
Q1 2005	4	6	99	106	101	77.3%	48.7%	6.7%	2.1	2.7
Q2 2005	19	20	101	111	101	81.7%	51.7%	5.8%	2.1	2.6
Q3 2005	23	22	101	108	101	80.0%	50.4%	3.5%	2.0	2.5
Q4 2005	38	49	105	113	104	78.6%	48.2%	1.8%	1.9	2.4
Q1 2006	38	42	116	125	113	71.6%	40.5%	0.0%	1.6	2.2
Q2 2006	46	43	118	124	114	66.7%	34.1%	0.0%	1.3	2.0
Q3 2006	50	49	120	135	115	62.2%	27.9%	0.0%	1.1	1.8
Q4 2006	45	43	129	138	120	54.5%	23.2%	0.0%	0.9	1.7
Q1 2007	40	39	135	137	127	52.9%	20.2%	0.0%	0.8	1.5
Q2 2007	46	44	139	161	129	50.0%	17.6%	0.0%	0.8	1.5
Q3 2007	51	56	150	165	137	43.6%	14.5%	0.0%	0.6	1.5
Q4 2007	34	39	147	164	134	46.0%	11.3%	0.0%	0.6	1.3
Q1 2008	29	24	146	187	134	44.4%	8.9%	0.0%	0.6	1.3
Q2 2008	-1	6	161	190	146	36.2%	8.6%	0.0%	0.5	1.3
Q3 2008	-35	-28	148	143	137	40.4%	14.6%	0.0%	0.7	1.6
Q4 2008	-41	-35	145	169	137	42.0%	16.5%	0.5%	0.8	1.8
Q1 2009	-64	-58	129	124	125	44.1%	22.3%	1.1%	0.9	2.1
Q2 2009	-75	-78	117	134	116	61.4%	37.0%	2.6%	1.6	2.6
Q3 2009	-65	-62	111	110	111	70.2%	50.5%	5.9%	2.1	3.1
Q4 2009	-66	-67	109	107	108	79.4%	65.6%	9.0%	2.7	3.4
Q1 2010	-57	-56	100	100	100	84.5%	72.5%	13.0%	3.2	3.7
Q2 2010	-61	-58	96	95	96	83.4%	74.3%	18.2%	3.4	4.0
Q3 2010	-52	-56	100	96	100	85.9%	76.5%	25.3%	3.8	4.4
Q4 2010	-31	-29	94	93	96	86.0%	76.2%	34.9%	4.3	5.0
Q1 2011	-19	-21	93	92	94	84.4%	74.9%	35.9%	4.2	5.0
Q2 2011	-34	-42	91	91	94	85.1%	76.4%	43.5%	4.5	5.3
Q3 2011	-28	-31	93	93	96	88.2%	78.2%	48.8%	4.8	5.4
Q4 2011	-15	-16	90	87	93	87.9%	79.6%	52.2%	4.8	5.4
Q1 2012	-24	-26	85	96	88	86.2%	77.8%	56.3%	5.0	5.8
Q2 2012	-29	-28	76	76	79	77.5%	69.8%	48.4%	4.4	5.7
Q3 2012	-36	-39	82	89	86	70.7%	66.3%	42.0%	4.1	5.7
Q4 2012	-14	-10	83	88	87	67.0%	60.8%	37.1%	3.8	5.7
Q1 2013	2	8	93	96	97	64.5%	60.6%	36.0%	3.8	5.8
Q2 2013	11	5	81	82	84	67.2%	63.6%	38.4%	4.1	6.1
Q3 2013	6	3	87	90	91	64.6%	59.6%	38.4%	3.9	6.0
Q4 2013	0	-3	87	88	90	66.1%	61.4%	37.6%	3.8	5.8
Q1 2014	9	8	94	97	97	69.9%	61.7%	34.7%	3.7	5.3
Q2 2014	19	19	91	97	94	68.6%	60.3%	28.9%	3.3	4.8
Q3 2014	11	8	94	94	97	70.0%	63.8%	31.0%	3.5	5.0