

NEWS & RELEASE

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Tokyo Office Space Market Index Q4 2014

Vacancy Rate | New Contract Rent Index | Contract Rent DI | Free Rent

Overall market is on a moderate recovery but increasingly polarized between winners and losers depending on how well office spaces meet the needs of tenants seeking to move for positive purposes.

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

Indices were released separately before but are combined into one report since the previous quarter to help a better understanding of the market. The vacancy rent data is a new addition in this quarter.

Market Conditions

Tokyo 23 Wards office space market is gradually recovering; vacancy rates down, rents up and free rents down on the back of strong office demand and limited new supply.

The market is increasingly more polarized between buildings: those that meet the needs of good-performing companies who are seeking to relocate their offices for the purposes of achieving better location, space expansion and/or upgrades have reduced vacant spaces and increased rents while those that failed to meet such needs have decreased rents.

Market Trends in Tokyo 23 Wards based on Indices

- **Vacancy Rate is 5.73%.**

A quarter-on-quarter decrease of 0.22 points and tenth consecutive quarterly decrease. Demand continues to surpass supply.

- **New Contract Rent Index (level of contract rent) is 94.** (Q1 2010 = 100)

Overall index remained unchanged from the previous quarter; however, index for large buildings (over 5,000 tsubo gross floor area) has increased by 4 points.

- **Contract Rent DI (buildings with rent increase versus buildings with rent decrease) is -2.**

Buildings with rent decrease slightly exceeded buildings with rent increase. This is the first negative figure in two years. Rent continued to decrease in less competitive buildings which failed to take the needs of tenants who are seeking to move for positive reasons.

- **Average Free Rent is 3.1 months.**

Decreased by 0.4 months quarter-on-quarter. Long-term free rent (over 6 months) was given to 25.1% of new leases; a decrease by 5.9 points quarter-on-quarter, indicating a compression of the free rent period.

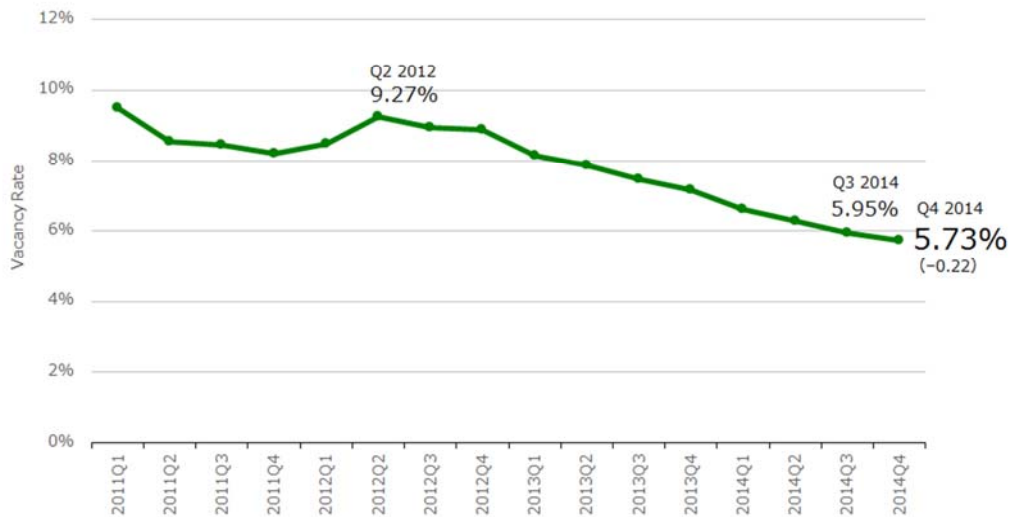
- Explanations for the results of each index are available on the following pages.
- Summary of the indices is available on 7. Index Summary.
- Historical quarterly data is available on 8. Numerical Data for Entire Period.

1. Vacancy Rate

The vacancy rate, estimated by dividing the vacant area by the rentable area, shows the balance between demand and supply in the office space market. The vacancy rate decreases when demand surpasses supply such as when tenants actively expand spaces and increases when demand falls below supply such as when new supply is too large but demand remains weak.

Figure 1 shows the vacancy rate in Tokyo 23 Wards for the past four years. The fourth quarter 2014 marked 5.73%, a decrease by 0.22 points from 5.95% in the previous quarter, decreased for 10 quarters in a row. This decrease may be a result of increased demand for office space as companies are posting strong results but new supply remains equivalent to that in the previous year.

Figure 1: Vacancy Rate in Tokyo 23 Wards



2. New Contract Rent Index

New Contract Rent Index is an office rent indicator based on contract rent with Q1 2010 as a base point (=100). Actual market conditions are more accurately reflected in this index using the contract rent data than the index using asking rent data. Also, by using the statistical method, this index is free from factors that influence the rent, such as the gross floor area of the building and building age.

Figure 2 shows the historical New Contract Rent Index. The fourth quarter of 2014 was 94, flat quarter-on-quarter but 7 points higher year-on-year, indicating a gradual rental growth.

Figure 2: New Contract Rent Index in Tokyo 23 Wards

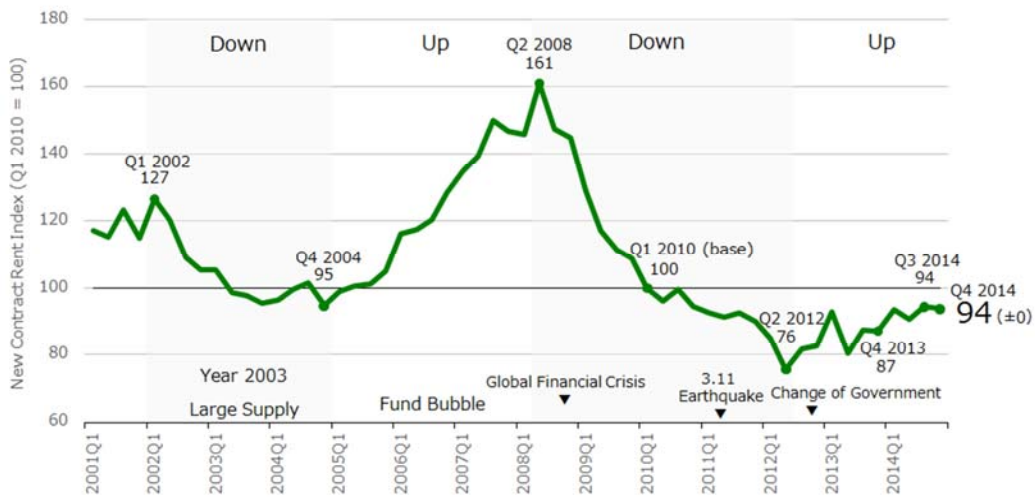
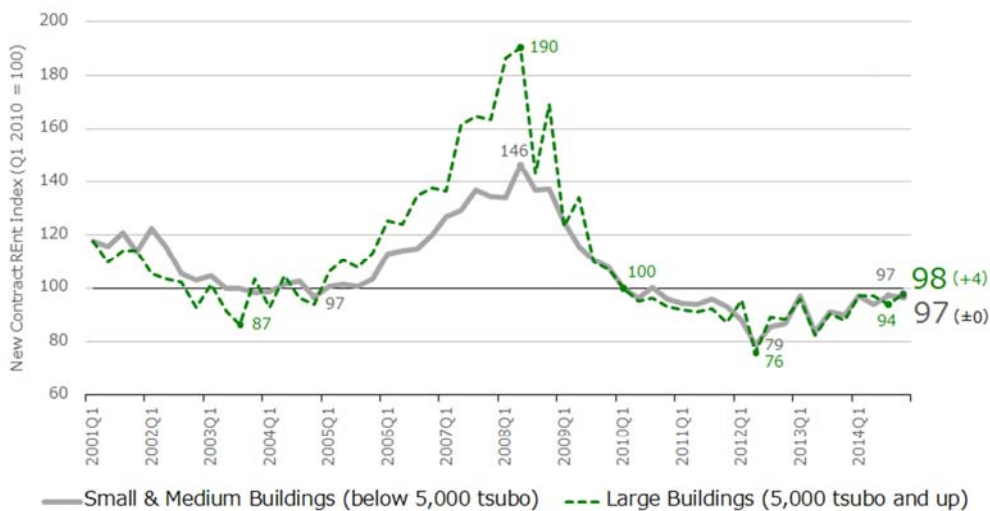


Figure 3 shows New Contract Rent Index by size of office buildings. Medium and small buildings (less than 5,000 tsubo gross floor area) remained flat quarter-on-quarter at 97 while large buildings (over 5,000 tsubo) saw an increase by 4 points.

Figure 3: New Contract Rent Index in Tokyo 23 Wards by Size of Buildings



5,000 tsubo = approx. 16,500 sqm

3. Contract Rent DI

Contract Rent Diffusion Index (DI) shows the changes in contract rent by comparing the number of buildings where contract rent has increased and the number of buildings where contract rent has decreased. Positive DI means spaces in more buildings were signed at a higher rent than before whereas negative DI means spaces in more buildings were signed at a lower rent than before.

Figure 4 and Figure 5 show historical changes of Contract Rent DI. The DI for the fourth quarter 2014 was -2 for Tokyo 23 Wards and -4 for Tokyo Central Three Wards (Chiyoda, Chuo and Minato); both showed the buildings with rent down was slightly greater than that with rent up. This marked the first negative figure in two years since the fourth quarter of 2012 for Tokyo 23 Wards and the first negative figure in one year since the fourth quarter of 2013 for Tokyo Central Three Wards.

Buildings that meet the positive relocation demand, such as for better location, space expansion or upgrade, succeeded in reducing vacant spaces and achieved higher rents. In contrast, buildings that failed to satisfy such demand due to poor location or poor building specifications continued to see their rents to fall.

Figure 4: Contract Rent DI in Tokyo 23 Wards

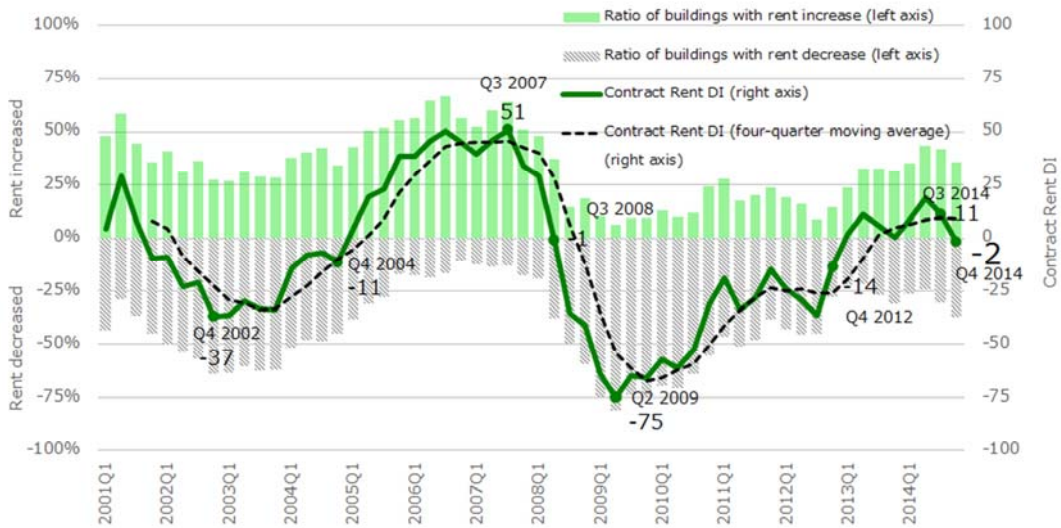
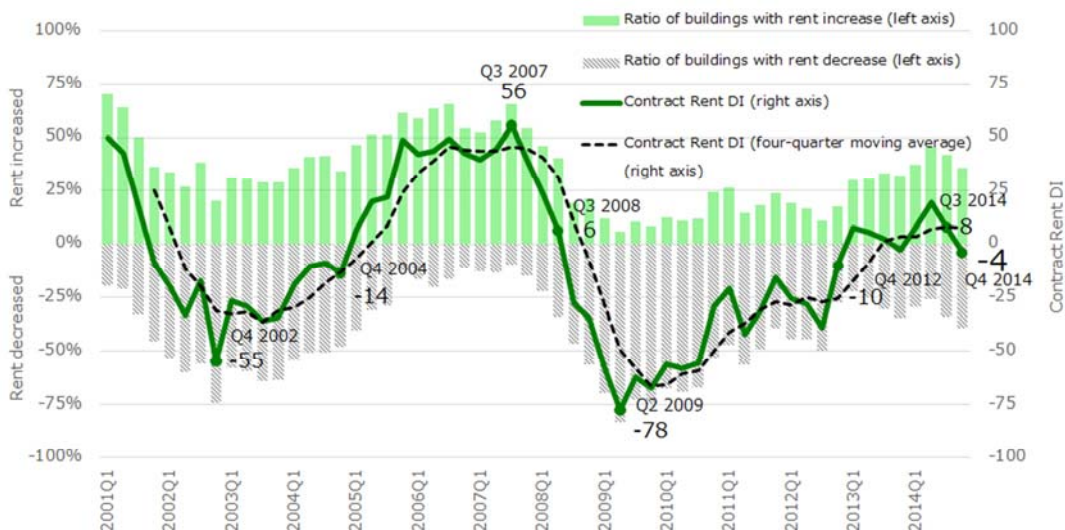


Figure 5: Contract Rent DI in Tokyo Central Three Wards



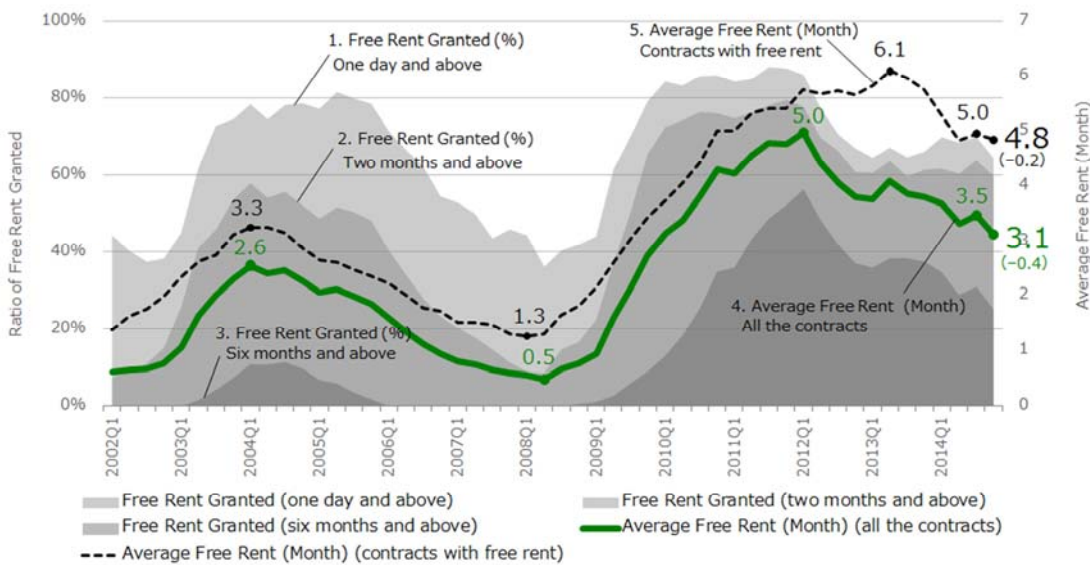
4. Free Rent

Free rent is a time lag between the commencement of the contract and the start of the rent payment. It reduces the occupancy cost of the tenants in relation to relocation. It is sometimes used as a means of rent reduction when market conditions are difficult.

Figure 6 shows the ratio of new leases with free rent to all the new leases (Ratio of Free Rent Granted) and the average free rent period shown in months (Average Free Rent). To grasp the trend, Ratio of Free Rent Granted is classified into three categories based on the length of the free rent (1. One day and above, 2. Two months and above 3. Six months and above) and Average Free Rent (Month) is classified into two categories (4. Average of all the contracts 5. Average of contracts with free rent).

Ratio of Free Rent Granted for the fourth quarter of 2014 decreased for all the categories: 1. One day and above was 64.5% (-5.5 points, quarter-on-quarter) 2. Two months and above was 59.7% (-4.1 points) and 3. Six months and above was 25.1% (-5.9 points). Average Free Rent (Month) also decreased quarter-on-quarter: 4. Average of all the contracts was 3.1 months (-0.4 months) and 5. Average of contracts with free rent was 4.8 months (-0.2 months). A particular large drop was Ratio of Free Rent Granted 3. Six months and above by 12.5 points, indicating that long-term free rents are becoming less likely to be granted thanks to the improved market balance.

Figure 6: Free Rent for New Lease in Tokyo 23 Wards



		Q4 2011	Q4 2012	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Ratio of Free Rent Granted	1. One day and above	87.9%	67.0%	66.1%	69.9%	68.6%	70.0%	64.5%
	2. Two months and above	79.6%	60.8%	61.4%	61.7%	60.3%	63.8%	59.7%
	3. Six months and above	52.2%	37.1%	37.6%	34.7%	28.9%	31.0%	25.1%
Average Free Rent (Month)	4. All the contracts	4.8	3.8	3.8	3.7	3.3	3.5	3.1
	5. Contracts with free rent	5.4	5.7	5.8	5.3	4.8	5.0	4.8

5. Current Position in Office Market Cycle

Figure 7 is a graph with vacancy rates on the horizontal axis and New Contract Rent Index on the vertical axis, plotted quarterly.

The graph shows that the market is cyclical: the plot started to move to lower right in 2001 (vacancy up, rent down) and remained static in 2003-2004, then it started to move to upper left in 2005 (vacancy down, rent up) and to lower right again in 2008 (vacancy up, rent down).

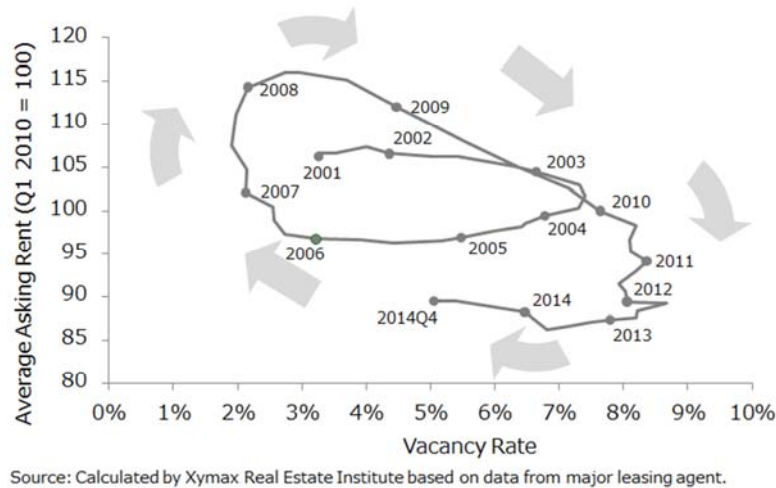
According to the graph, the office space market as of 2014 is recovering from the doldrums started in 2010, with modest vacancy decrease and rent increase.

Figure 7: Office Space Market Cycle in Tokyo 23 Wards (New Contract Rent Index)



Figure 8 is a graph similar to Figure 7 but using the asking rents, not the contract rents. Compared to Figure 7, the timing of start of rent increase (the plot moving to upper side) is years slower in Figure 8. To capture market trends, index based on contract rents is considered more appropriate than index based on asking rents.

Figure 8: Office Space Market Cycle in Tokyo 23 Wards (Average Asking Rent)



6. Market Analysis Using Combined Data

Figure 9 shows New Contract Rent Index and Contract Rent DI in one graph.

Contract Rent increases when DI is positive and decreases when DI is negative. Contract Rent drastically increased when DI is strong positive in 2006-2007 and drastically decreased when DI is strong negative in 2008-2010. Thus, the combined data indicates the speed of rental changes.

Figure 9: New Contract Rent Index & Contract Rent DI in Tokyo 23 Wards

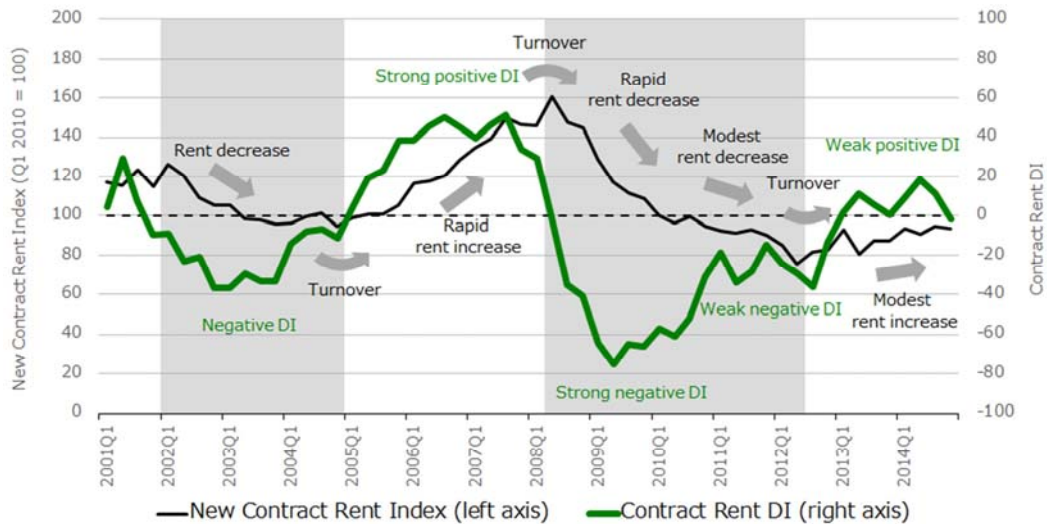
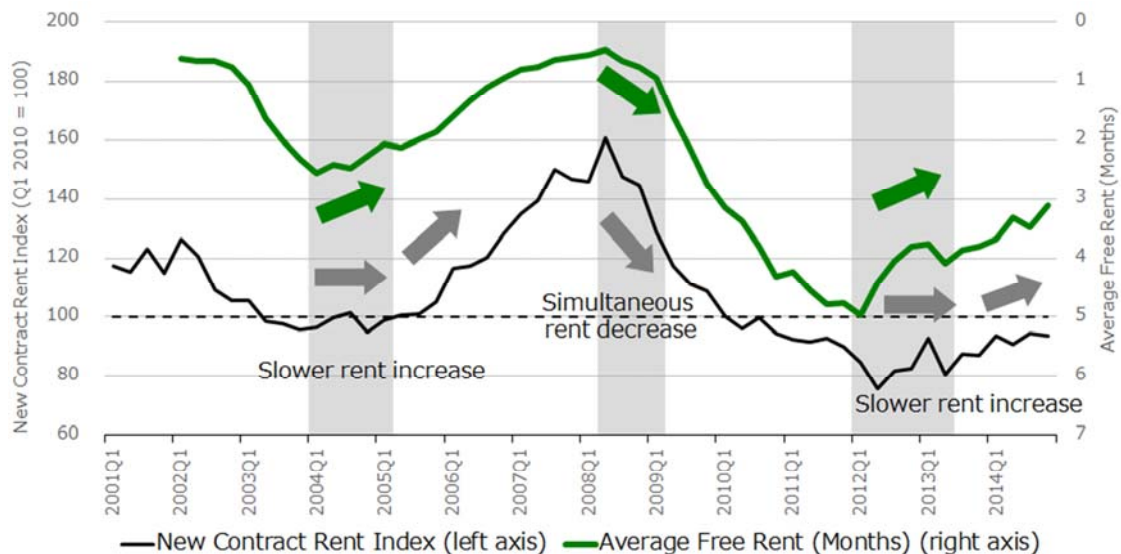


Figure 10 shows New Contract Rent Index and Average Free Rent (Months) (All the Contracts) in one graph. (In the graph, the axis of the free rent was turned upside down to match with the ups and downs of the market trends.)

As shown, although the length of the free rent period and ups and downs of rent 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 actual income recovery.

Figure 10: New Contract Rent Index & Average Free Rent (Month) (All the Contracts) in Tokyo 23 Wards



7. Index Summary

	Vacancy Rate	New Contract Rent Index	Contract Rent DI	Ratio of Free Rent Granted & Average Free Rent (Month)
Overview	Proportion of vacant spaces in all the spaces available for rent in the market	Office rent index based on contract rent. Influential factors such as gross floor area and building age are adjusted by using statistical method.	Index of changes in contract rent estimated by comparing buildings where rent has increased and buildings where rent has decreased.	Distribution of time lag between start of contract and start of rent payment. Average length of the time lag.
Meaning	Market balance (supply and demand)	Contract rent level	Direction of contract rent trends	Market trends that are not reflected in contract rent
Sector	Office Building	Office Building	Office Building	Office Building
Area	Tokyo 23 Wards	Tokyo 23 Wards	Tokyo 23 Wards / 3 Wards	Tokyo 23 Wards
Building Size	All	All / Large (over 5,000 tsubo) / Small-Medium (below 5,000 tsubo)	All	All
Frequency	Quarterly	Quarterly	Quarterly	Quarterly
Since	Q1 2011	Q1 2001	Q1 2001	Q1 2002
Data Source	Data of vacant spaces and properties independently collected by Xymax	Contract rent data (incl. CAM) independently collected by Xymax	Contract rent data (incl. CAM) independently collected by Xymax	Contract data collected from properties under Xymax's management
Data Volume (Latest Quarter)	25,906 buildings	1,052 contracts	849 contracts	211 contracts
Calculation	<ul style="list-style-type: none"> • Vacancy rate = vacant space ÷ rentable space • Vacant space Total of vacant spaces of completed buildings available for rent as of the time of this study. • Rentable space Rentable spaces of completed buildings as of the time of this study. <p>Where rentable space data is not available, the rentable space is calculated from the gross floor area of the building using the formula developed by the joint study with the laboratory of Professor Naoki Kato at Kyoto University Graduate School of Engineering.</p>	<ol style="list-style-type: none"> 1) Develop 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. 2) Quarterly contract rent is estimated by assigning the attribute values of a typical building to the model developed in 1. 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>This model can present historical changes in contract rent reflecting the adjusted variables such as location, size, age and facilities of the building.</p>	<ol style="list-style-type: none"> 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"). 2) Estimate the ratio of "rent decrease" and the ratio of "rent increase" 3) Subtract the ratio of "rent decrease" from the ratio of "rent increase". The figure derived is referred to as the Contract Rent Diffusion Index (DI). 	<ul style="list-style-type: none"> • Free rent period The period from the start of contract to the start of rent, shown in days. • Ratio of Free Rent Granted The percentage of contracts with free rent in all the new contracts (excl. expansions within the building and recontracts) • Average Free Rent (Month) (All the Contracts) The simple average of the free rent period including lease contracts with no free rent. • Average Free Rent (Month) (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 level or closer to that level, but such contracts are excluded from this study.</p>

Further information of the indices is available online:

Contract Rent DI	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

8. Numerical Data for Entire Period

	Vacancy Rate	New Contract Rent Index			Contract Rent DI		Free Rent				
		All	Large building	Small & Medium buildings	Tokyo 23 Wards	Tokyo Central 3 Wards	1 day + Granted	2 months + Granted	6 months + Granted	All the contracts Average month	Contracts with Free Rent Average month
Q1 2001	-	117	118	118	4	50	-	-	-	-	-
Q2 2001	-	115	110	116	29	43	-	-	-	-	-
Q3 2001	-	123	114	121	7	17	-	-	-	-	-
Q4 2001	-	115	114	114	-10	-9	-	-	-	-	-
Q1 2002	-	127	106	123	-9	-20	44.4%	7.4%	0.0%	0.6	1.4
Q2 2002	-	120	103	115	-23	-33	40.4%	8.8%	0.0%	0.7	1.6
Q3 2002	-	109	102	105	-21	-17	37.5%	10.9%	0.0%	0.7	1.8
Q4 2002	-	105	93	103	-37	-55	38.3%	15.0%	0.0%	0.8	2.0
Q1 2003	-	105	101	105	-37	-27	45.2%	25.8%	0.0%	1.1	2.3
Q2 2003	-	99	92	100	-29	-29	61.9%	41.3%	1.6%	1.6	2.6
Q3 2003	-	98	87	100	-33	-36	72.9%	45.8%	4.2%	2.0	2.8
Q4 2003	-	96	104	98	-34	-34	74.5%	53.6%	7.3%	2.3	3.1
Q1 2004	-	97	93	99	-14	-19	78.5%	57.9%	10.7%	2.6	3.3
Q2 2004	-	100	105	102	-8	-10	74.6%	54.1%	10.7%	2.4	3.2
Q3 2004	-	102	96	103	-7	-9	78.3%	55.7%	11.3%	2.5	3.2
Q4 2004	-	95	94	97	-11	-14	78.8%	52.2%	9.7%	2.3	2.9
Q1 2005	-	99	106	101	4	6	77.3%	48.7%	6.7%	2.1	2.7
Q2 2005	-	101	111	101	19	20	81.7%	51.7%	5.8%	2.1	2.6
Q3 2005	-	101	108	101	23	22	80.0%	50.4%	3.5%	2.0	2.5
Q4 2005	-	105	113	104	38	49	78.6%	48.2%	1.8%	1.9	2.4
Q1 2006	-	116	125	113	38	42	71.6%	40.5%	0.0%	1.6	2.2
Q2 2006	-	118	124	114	46	43	66.7%	34.1%	0.0%	1.3	2.0
Q3 2006	-	120	135	115	50	49	62.2%	27.9%	0.0%	1.1	1.8
Q4 2006	-	129	138	120	45	43	54.5%	23.2%	0.0%	0.9	1.7
Q1 2007	-	135	137	127	40	39	52.9%	20.2%	0.0%	0.8	1.5
Q2 2007	-	139	161	129	46	44	50.0%	17.6%	0.0%	0.8	1.5
Q3 2007	-	150	165	137	51	56	43.6%	14.5%	0.0%	0.6	1.5
Q4 2007	-	147	164	134	34	39	46.0%	11.3%	0.0%	0.6	1.3
Q1 2008	-	146	187	134	29	24	44.4%	8.9%	0.0%	0.6	1.3
Q2 2008	-	161	190	146	-1	6	36.2%	8.6%	0.0%	0.5	1.3
Q3 2008	-	148	143	137	-35	-28	40.4%	14.6%	0.0%	0.7	1.6
Q4 2008	-	145	169	137	-41	-35	42.0%	16.5%	0.5%	0.8	1.8
Q1 2009	-	129	124	125	-64	-58	44.1%	22.3%	1.1%	0.9	2.1
Q2 2009	-	117	134	116	-75	-78	61.4%	37.0%	2.6%	1.6	2.6
Q3 2009	-	111	110	111	-65	-62	70.2%	50.5%	5.9%	2.1	3.1
Q4 2009	-	109	107	108	-66	-67	79.4%	65.6%	9.0%	2.7	3.4
Q1 2010	-	100	100	100	-57	-56	84.5%	72.5%	13.0%	3.2	3.7
Q2 2010	-	96	95	96	-61	-58	83.4%	74.3%	18.2%	3.4	4.0
Q3 2010	-	100	96	100	-52	-56	85.9%	76.5%	25.3%	3.8	4.4
Q4 2010	-	94	93	96	-31	-29	86.0%	76.2%	34.9%	4.3	5.0
Q1 2011	9.50%	93	92	94	-19	-21	84.4%	74.9%	35.9%	4.2	5.0
Q2 2011	8.55%	91	91	94	-34	-42	85.1%	76.4%	43.5%	4.5	5.3
Q3 2011	8.46%	93	93	96	-28	-31	88.2%	78.2%	48.8%	4.8	5.4
Q4 2011	8.22%	90	87	93	-15	-16	87.9%	79.6%	52.2%	4.8	5.4
Q1 2012	8.47%	85	96	88	-24	-26	86.2%	77.8%	56.3%	5.0	5.8
Q2 2012	9.27%	76	76	79	-29	-28	77.5%	69.8%	48.4%	4.4	5.7
Q3 2012	8.96%	82	89	86	-36	-39	70.7%	66.3%	42.0%	4.1	5.7
Q4 2012	8.88%	83	88	87	-14	-10	67.0%	60.8%	37.1%	3.8	5.7
Q1 2013	8.16%	93	96	97	2	8	64.5%	60.6%	36.0%	3.8	5.8
Q2 2013	7.89%	81	82	84	11	5	67.2%	63.6%	38.4%	4.1	6.1
Q3 2013	7.47%	87	90	91	6	3	64.6%	59.6%	38.4%	3.9	6.0
Q4 2013	7.18%	87	88	90	0	-3	66.1%	61.4%	37.6%	3.8	5.8
Q1 2014	6.63%	94	97	97	9	8	69.9%	61.7%	34.7%	3.7	5.3
Q2 2014	6.29%	91	97	94	19	19	68.6%	60.3%	28.9%	3.3	4.8
Q3 2014	5.95%	94	94	97	11	8	70.0%	63.8%	31.0%	3.5	5.0
Q4 2014	5.73%	94	98	97	-4	-2	64.5%	59.7%	25.1%	3.1	4.8