

# NEWS & RELEASE

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## Tokyo Office Space Market Index Q1 2015

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

*Recovery spreads across the market, as witnessed by lease of long-time vacant spaces*

Xymax Real Estate Institute releases the results of the office space market indices for the first quarter of 2015: Vacancy Rate, New Contract Rent Index, Contract Rent DI, Ratio of Free Rent Granted and Average Free Rent (Month).

### Overall Market

Tokyo 23 Wards Office Space Market continues to be in the slow process of recovery backed by strong demand and limited new supply of office spaces as companies are hiring more office workers. The market is tight for those seeking office spaces in prime locations or with affordable rents. The rents of office spaces such as those in large buildings are increasing as a result. Meanwhile, if the rents are set appropriately, tenants sign lease of buildings that were less successful in leasing in the past. Thus, the recovery is prevailing throughout the market.

### By Index (Tokyo 23 Wards)

• **Vacancy Rate** is 5.62%.

A quarter-on-quarter decrease of 0.11 points and eleventh consecutive quarterly decrease. Available office spaces in some prime areas are becoming in short supply. Tenants are now signing lease for spaces that were vacant for a long time.

• **New Contract Rent Index** (level of contract rent) is 92. (Q1 2010 = 100)

Overall index decreased by 2 points quarter-on-quarter; however, index for large buildings (over 5,000 tsubo gross floor area) increased by 5 points.

• **Contract Rent DI** (buildings with rent increase versus buildings with rent decrease) is 0.

The number of buildings with rent decrease and those with rent increase were roughly the same this quarter.

• **Average Free Rent (Month)** is 2.7 months.

A quarter-on-quarter decrease by 0.4 months. Long-term free rent (over 6 months) was given to 20.4% of new lease contracts; a quarter-on-quarter decrease by 4.7 points, 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 6. Index Summary.
- Historical quarterly data is available on 7. Numerical Data for Entire Period.

## 1. Vacancy Rate

Figure 1 shows the vacancy rate in Tokyo 23 Wards for the past four years. The vacancy rate decreased for 11 consecutive quarters to 5.62% in the first quarter of 2015, dropping by 0.11 points from 5.73% in the previous quarter. Although the overall market continued to see healthy performance backed by steady demand for spaces, the decrease in vacancy slowed slightly due to the tight market in some prime areas like Marunouchi and Shibuya.

Figure 1: Vacancy Rate in Tokyo 23 Wards

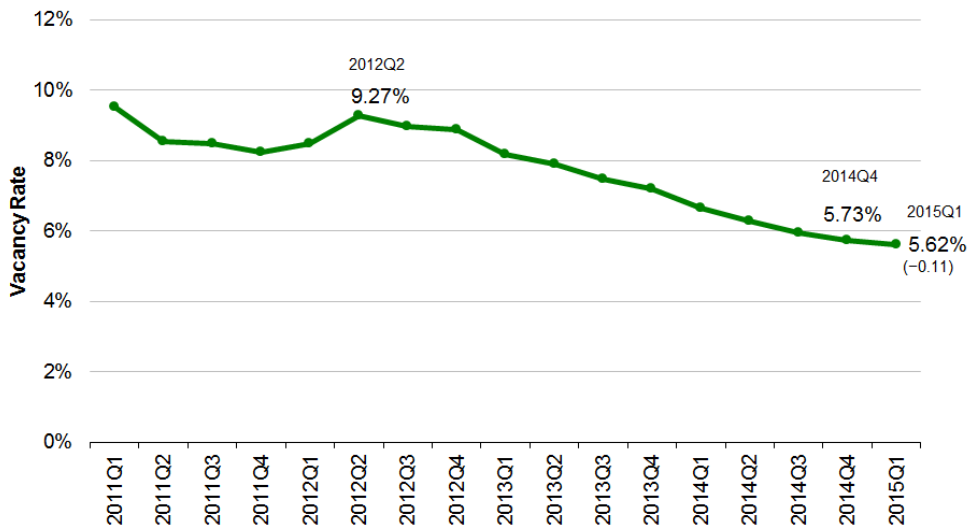
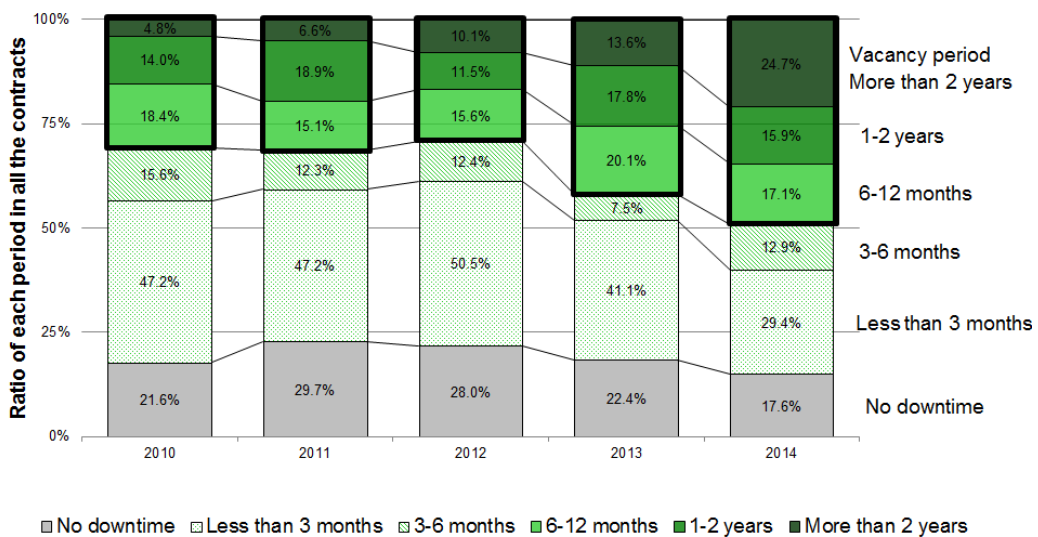


Figure 2 shows the vacancy period (downtime) of the spaces that were leased in each year. Of all the contracts signed in 2014, 57.7% (bold black line) had been vacant for more than six months prior to the occupancy, the largest percentage in five years, indicating that even such long-time vacant spaces are being leased up now. The steady demand from tenants and limited availability of affordable spaces are the possible factors behind this.

Figure 2: Vacancy Period (Downtime) in Tokyo 23 Wards



## 2. New Contract Rent Index

Figure 3 shows changes in New Contract Rent Index. The first quarter of 2015 was 92, a decrease by 2 points from 94 in the previous quarter and same quarter year ago. Overall, the rising market became quiet.

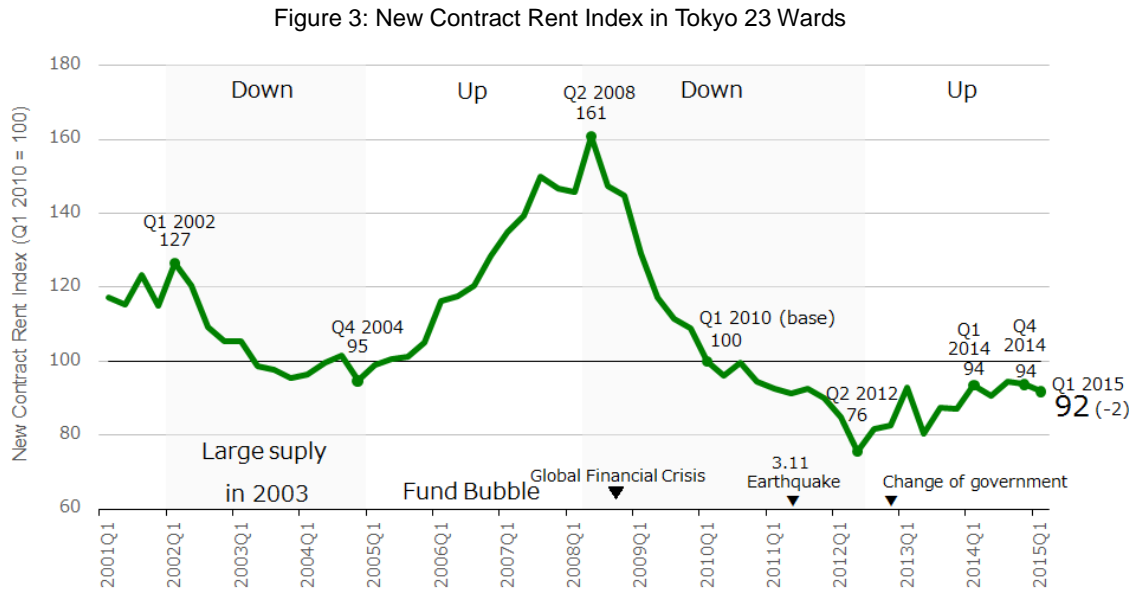
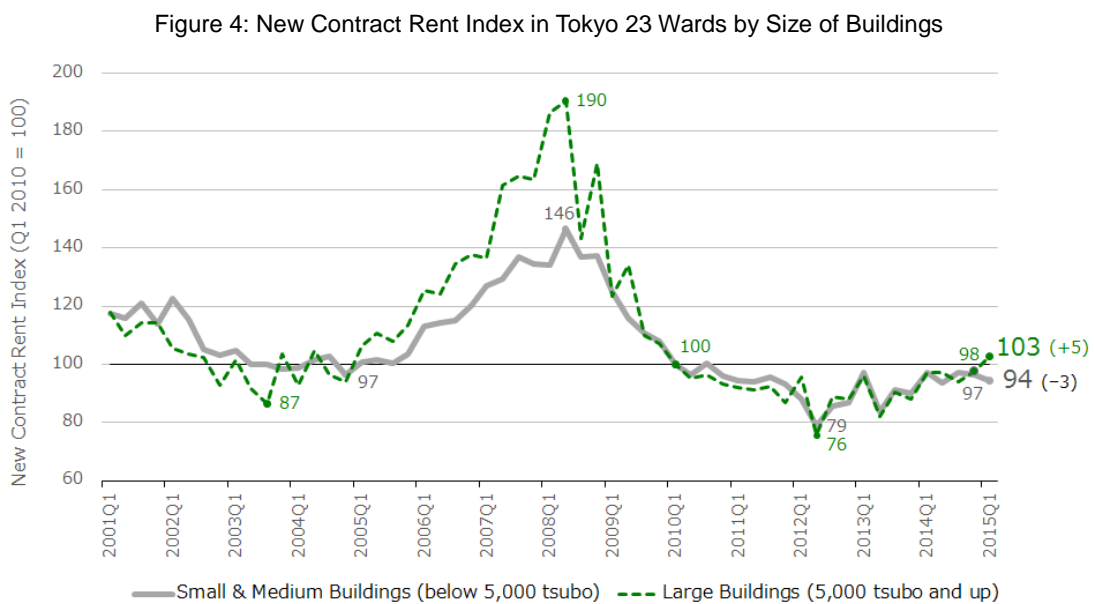


Figure 4 shows changes in New Contract Rent Index by size of office buildings. Small and medium buildings (less than 5,000 tsubo in gross floor area) decreased quarter-on-quarter by 3 points to 94 while large buildings (over 5,000 tsubo) saw a quarter-on-quarter increase by 5 points to 103.



### 3. Contract Rent DI

Figures 5 and 6 show changes in Contract Rent Diffusion Index (DI) for Tokyo 23 Wards and Central Three Wards. The first quarter of 2015 was 0 (zero) for both Tokyo 23 Wards and Central Three Wards, which means that the number of buildings with rent increase was roughly the same as the number of buildings with rent decrease. Tokyo 23 Wards saw a slight increase from -2 in the previous quarter and Tokyo Central Three Wards also saw a slight increase from -4 in the previous quarter.

Although some buildings like those in the periphery market and those with a rent of 10,000-15,000 yen per tsubo saw an increase of rent, a certain amount of other buildings had to reduce the rent in order to have a lease signed after having increased the rent once in hopes of a market upturn.

Figure 5: Contract Rent DI in Tokyo 23 Wards

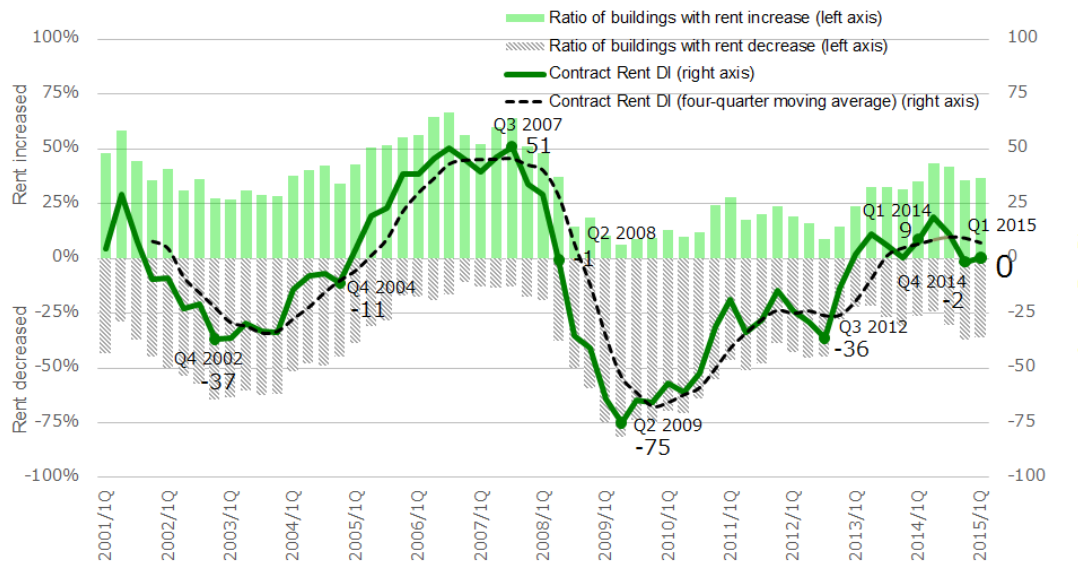
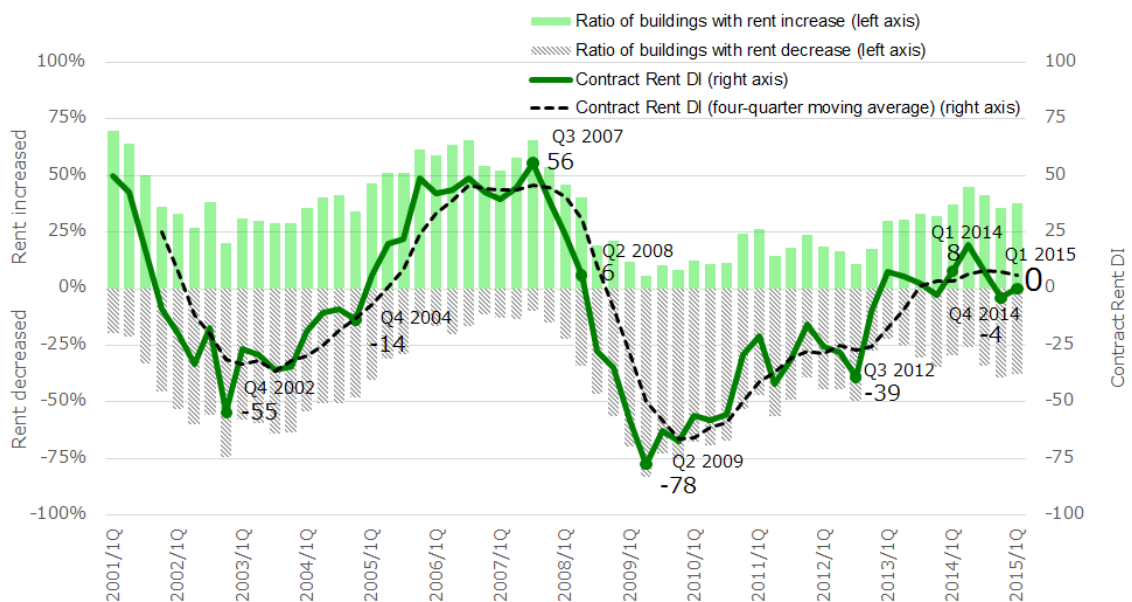


Figure 6: Contract Rent DI in Tokyo Central Three Wards

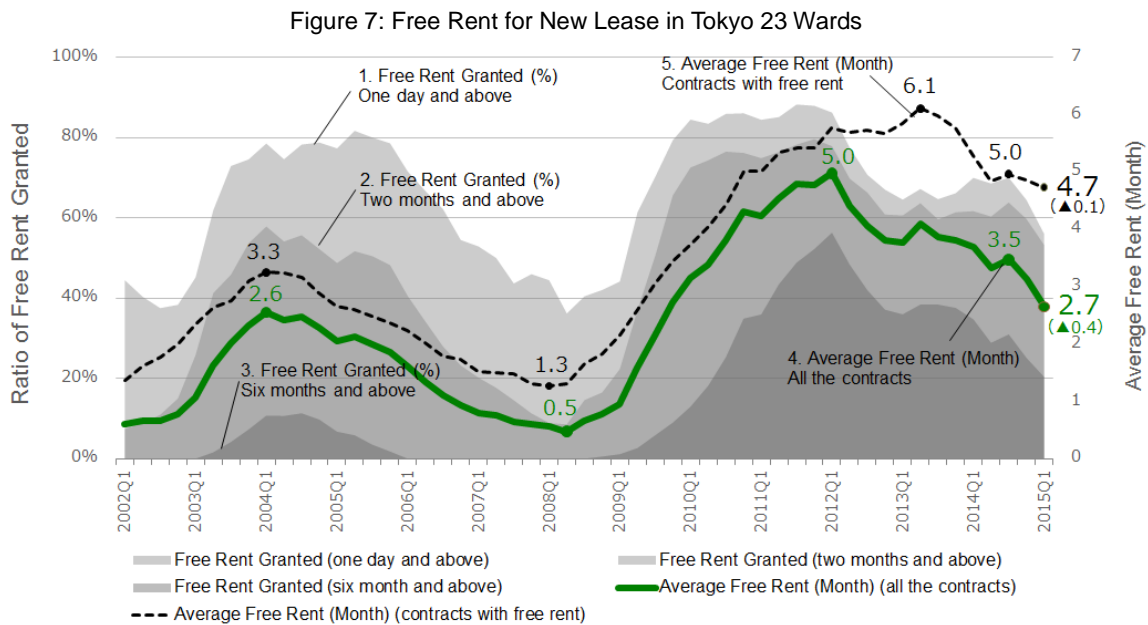


## 4. Free Rent

Figure 7 shows Ratio of Free Rent Granted which is a ratio of new leases with free rent to all the new leases and Average Free Rent (Month) which is an average free rent period shown in months.

Ratio of Free Rent Granted for the first quarter of 2015 decreased quarter-on-quarter for all the categories: 1. One day and above was 56.0% (-8.5 points), 2. Two months and above was 53.2% (-6.5 points) and 3. Six months and above was 20.4% (-4.7 points). Average Free Rent (Month) also decreased quarter-on-quarter: 4. Average of all the contracts was 2.7 months (-0.4 months) and 5. Average of contracts with free rent was 4.7 months (-0.1 months).

Contracts with a long free rent of six months and above are becoming less likely to be given while contracts with no free rent are on the increase. The length of free rent was a key to success when the market was difficult and had no room for rent reduction. As the market improved, the trend is now shifting to a situation where rent negotiation is possible.



		Q1 2012	Q1 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Ratio of Free Rent Granted	1. One day and above	86.2%	64.5%	69.9%	68.6%	70.0%	64.5%	56.0%
	2. Two months and above	77.8%	60.6%	61.7%	60.3%	63.8%	59.7%	53.2%
	3. Six months and above	56.3%	36.0%	34.7%	28.9%	31.0%	25.1%	20.4%
Average Free Rent (Month)	4. All the contracts	5.0	3.8	3.7	3.3	3.5	3.1	2.7
	5. Contracts with free rent	5.8	5.8	5.3	4.8	5.0	4.8	4.7

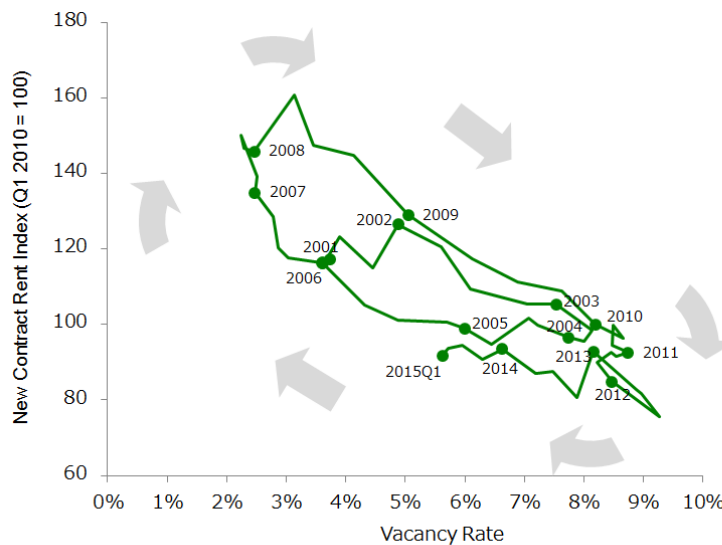
## 5. Office Market Cycle

Figure 8 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 2015 is recovering from the doldrums started in 2010, with modest vacancy decrease and rent increase.

Figure 8: Office Space Market Cycle in Tokyo 23 Wards (New Contract Rent Index)



Source: Xymax Real Estate Institute (Vacancy rates before March 2011 are based on data by major leasing agent.)

Figure 9 is a graph similar to Figure 8 but based on the asking rents instead of contract rents. The timing of the start of rent increase (the plot moving to upper side) in Figure 9 is some years behind that of Figure 8. As the graphs indicate, in order to capture market trends, the index based on contract rents is considered more appropriate than the index based on asking rents.

Figure 9: Office Space Market Cycle in Tokyo 23 Wards (Average Asking Rent)



Source: Calculated by Xymax Real Estate Institute based on data from major leasing agent.

## 6. 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)	26,562 buildings	1,248 contracts	877 contracts	216 contracts
Calculation	<ul style="list-style-type: none"> <li>• Vacancy rate = vacant space ÷ rentable space</li> <li>• Vacant space Total of vacant spaces of completed buildings available for rent as of the time of this study.</li> <li>• Rentable space Rentable spaces of completed buildings as of the time of this study.</li> </ul> <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"> <li>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.</li> <li>2) Quarterly contract rent is estimated by assigning the attribute values of a typical building to the model developed in 1.</li> <li>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.</li> </ol> <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"> <li>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").</li> <li>2) Estimate the ratio of "rent decrease" and the ratio of "rent increase"</li> <li>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).</li> </ol>	<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 the 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 study.</p>

Further information of the indices is available online:

Contract Rent DI	<a href="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</a>
New Contract Rent Index	<a href="http://www.xymax.co.jp/english/research/images/pdf/20140919-04.pdf">http://www.xymax.co.jp/english/research/images/pdf/20140919-04.pdf</a>
Free Rent	<a href="http://www.xymax.co.jp/english/research/images/pdf/20140919-03.pdf">http://www.xymax.co.jp/english/research/images/pdf/20140919-03.pdf</a>
Relations between indices	<a href="http://www.xymax.co.jp/english/research/images/pdf/20141031.pdf">http://www.xymax.co.jp/english/research/images/pdf/20141031.pdf</a>



## 7. 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	-2	-4	64.5%	59.7%	25.1%	3.1	4.8
Q1 2015	5.62%	92	103	94	0	0	56.0%	53.2%	20.4%	2.7	4.7