

NEWS & RELEASE

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Tokyo Office Space Market Index Q2 2015

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

The market continued to be buoyant in general but rental growth remained moderate reflecting owner's cautious mindset.

Xymax Real Estate Institute releases the results of the office space market indices for the second 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 continued to have a slow recovery, backed by strong demand and limited new supply, as companies are expanding business and hiring more office workers. Available space is becoming limited in high-demand areas, but rental growth of new contracts remained slow in general as owners are still cautious about raising rents.

By Index (Tokyo 23 Wards)

- **Vacancy Rate is 5.27%.**

Quarterly decrease of 0.35 points, decreasing 12 quarters in a row. Some high-demand areas are having a shortage of available space.

- **New Contract Rent Index is 93.** (level of new contract rent based on Q1 2010 = 100)

Overall market saw a quarterly increase of 1 point.

- **Contract Rent DI is +11.** (buildings with rent increase versus buildings with rent decrease)

Fewer buildings saw a decrease in rent while more buildings saw no change in rent.

- **Average Free Rent (Month) is 2.8 months.**

Quarterly increase of 0.1 month. Contracts with free rents increased slightly but a super long free rent period like 10 months or 12 months was no longer seen.

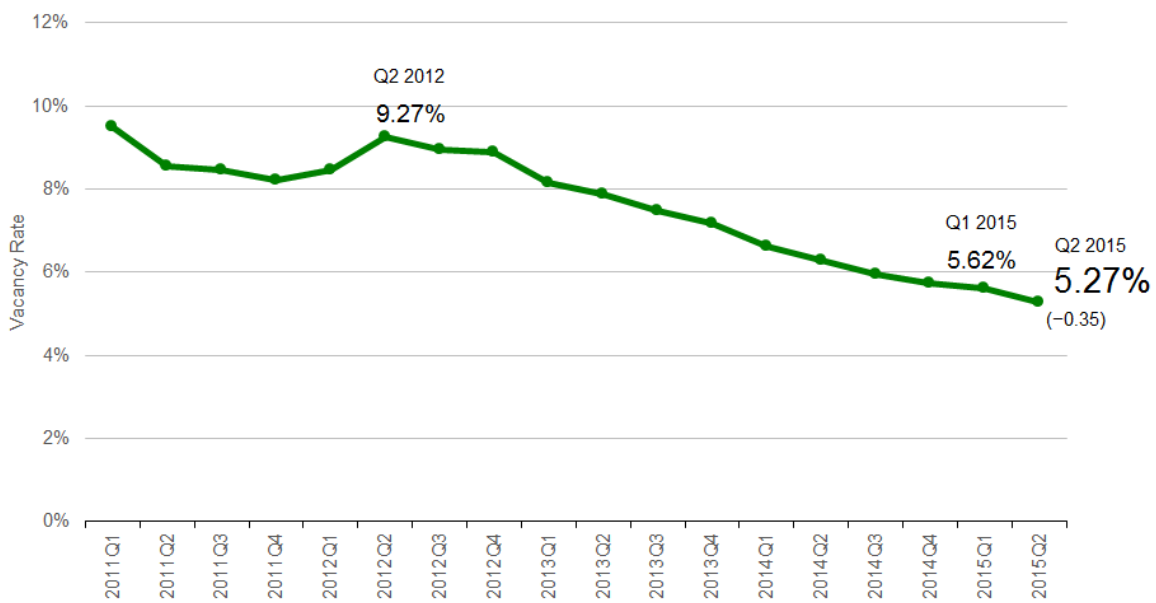
- Explanations for the results of each index are available on the following pages.
- Summary of the indices is available on 6. Index Summary.
- Historical quarterly data is available on 7. Numerical Data for Entire Period.

1. Vacancy Rate

Figure 1 shows vacancy rates in Tokyo 23 Wards for the past four years. The vacancy rates decreased for 12 consecutive quarters to 5.27% in the second quarter of 2015, a decrease of 0.35 points from 5.62% in the quarter before.

Demand for office space remains strong as companies are expanding business and hiring more workers, combined with limited new supply, the overall market is tight at the moment. Available space is in short supply particularly in high-demand large buildings in Chiyoda Ward and other buildings in Shibuya Ward.

Figure 1: Vacancy Rate in Tokyo 23 Wards



2. New Contract Rent Index

Figure 2 shows changes in New Contract Rent Index. The second quarter of 2015 was 93, an increase of 1 point from 92 in the quarter before and an increase of 2 points from 91 in the same quarter year ago. The space market is tight but the pace of rental growth is slow.

Figure 2: New Contract Rent Index in Tokyo 23 Wards (dotted line: four-quarter moving average)

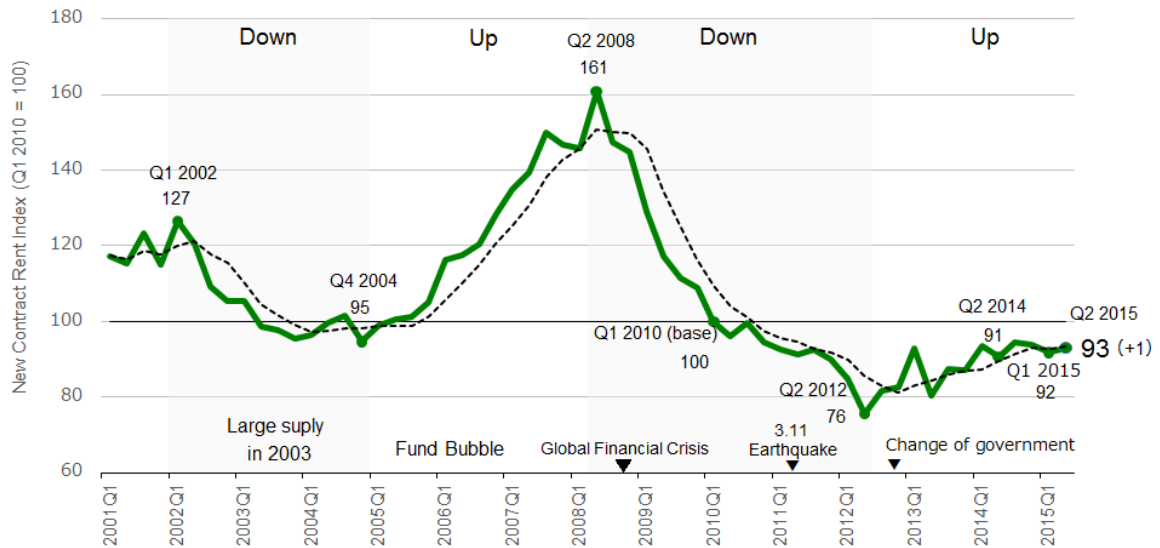
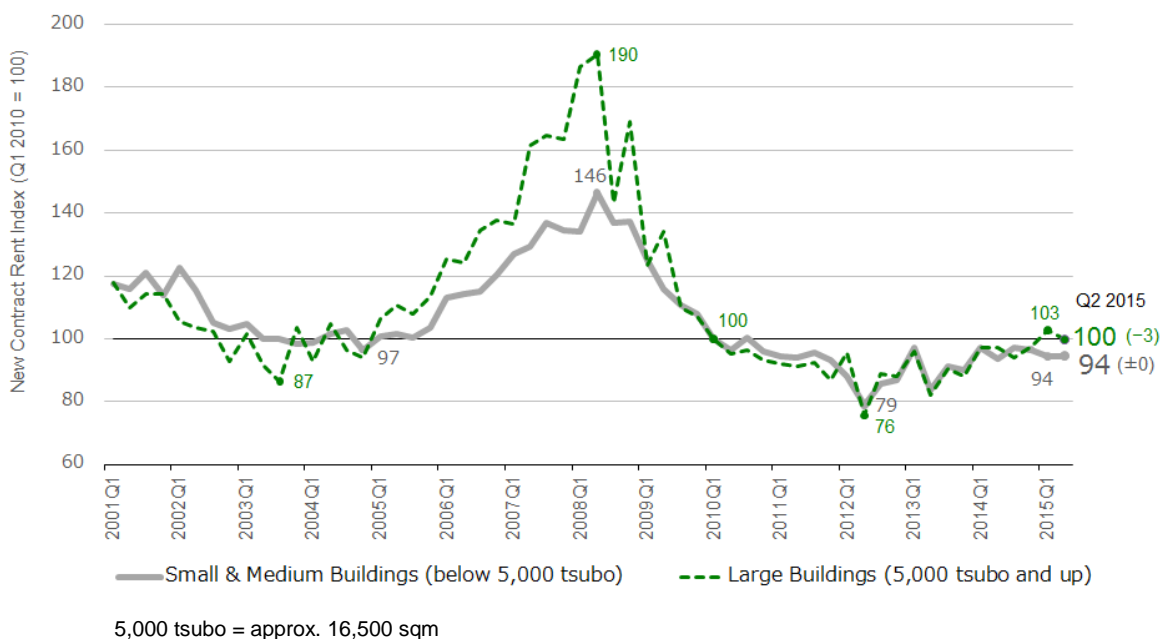


Figure 3 shows changes in New Contract Rent Index by size of buildings. Small and medium buildings (less than 5,000 tsubo in gross floor area) remained unchanged quarter-on-quarter at 94 while large buildings (over 5,000 tsubo) saw a decrease of 3 points to 100.

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



3. Contract Rent DI

Figures 4 and 5 show changes in Contract Rent Diffusion Index (DI) for Tokyo 23 Wards and Central Three Wards. The second quarter of 2015 was +11 for Tokyo 23 Wards and +8 for Central Three Wards, meaning that the number of buildings with rent increase this quarter was greater than those with rent decrease. DI for both categories saw an increase from 0 (zero) in the quarter before.

Driven by strong market conditions, a smaller number of buildings saw rent decrease this quarter. Even so, not many buildings had a rent increase; rents remained unchanged in increased number of buildings. This indicates that owners are still being careful about increasing rent levels.

Figure 4: Contract Rent DI in Tokyo 23 Wards

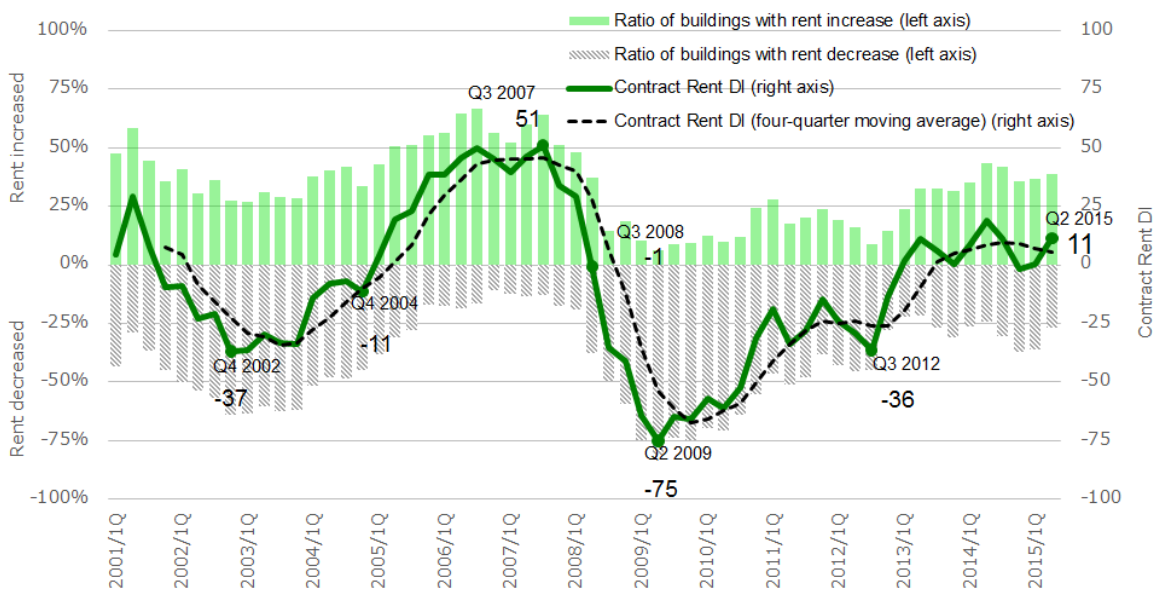
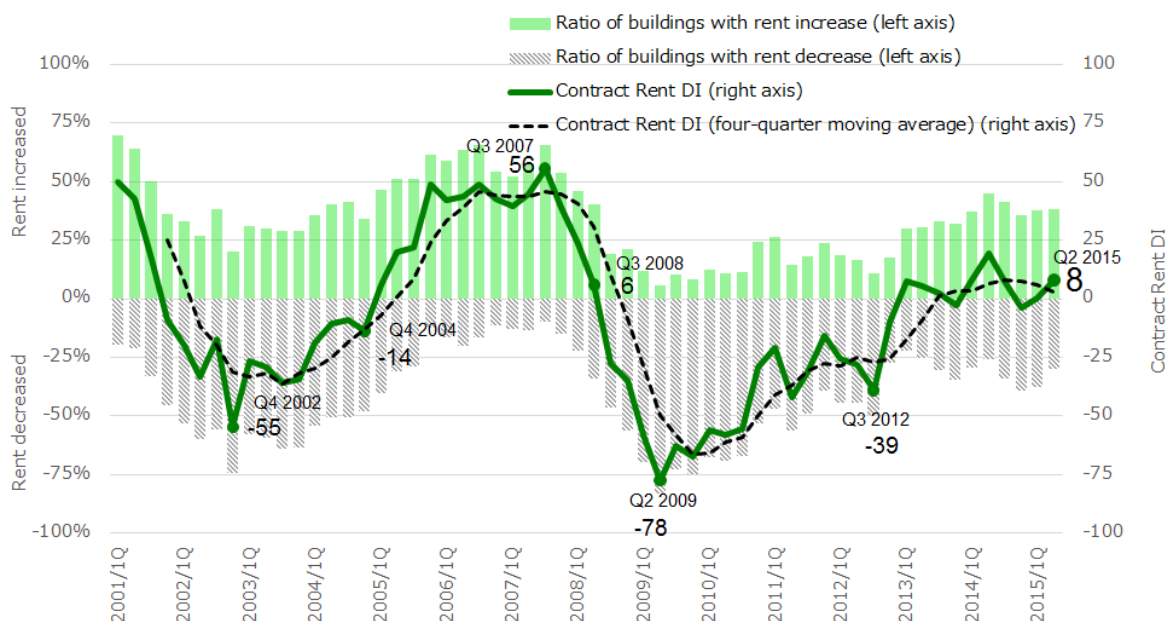


Figure 5: Contract Rent DI in Tokyo Central Three Wards



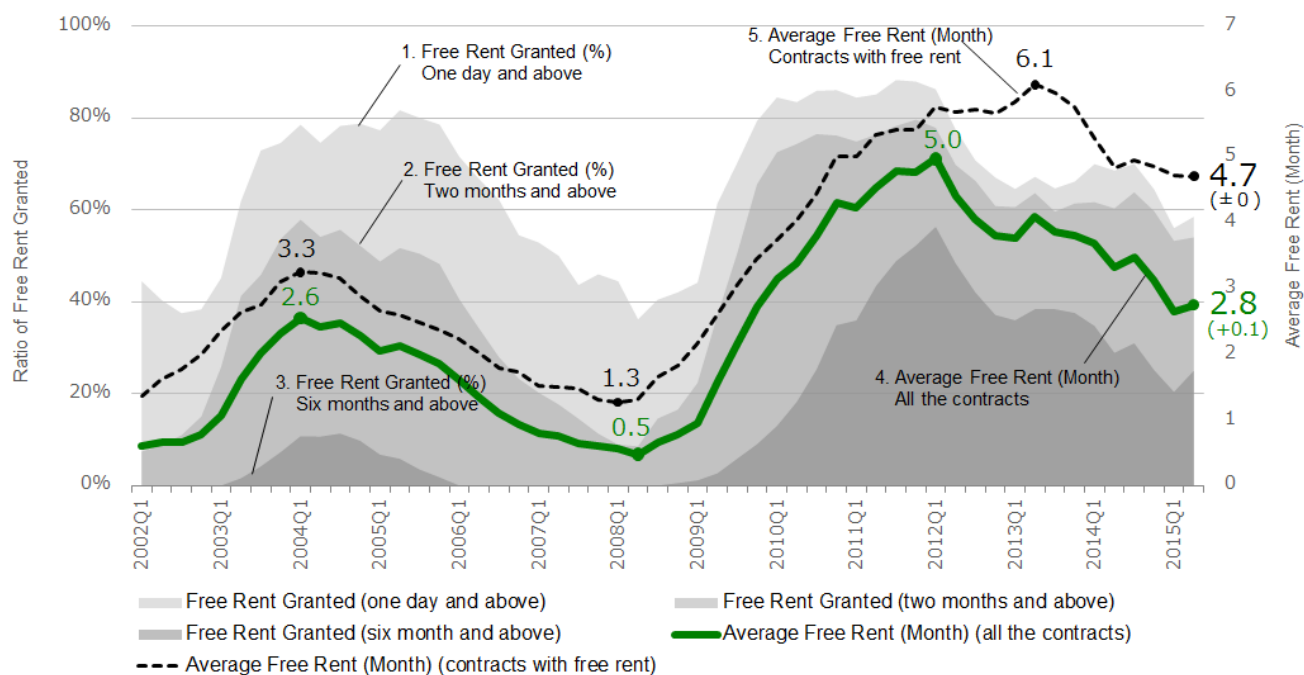
4. Free Rent

Figure 6 shows changes in Ratio of Free Rent Granted, which is a percentage 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 in the second quarter of 2015 increased quarter-on-quarter for all the categories: 1. One day and above was 58.5% (+2.5 points), 2. Two months and above was 54.0% (+0.8 points), and 3. Six months and above was 25.0% (+4.6 points). Average Free Rent (Month) of 4. Average of all the contracts had a slight increase to 2.8 months (+0.1 points) while 5. Average of contracts with free rent remained unchanged at 4.7 months.

Ratio of Free Rent Granted increased for the first time in three quarters since the third quarter of 2014. Average Free Rent (Month), however, remained flat as super long free rent periods like 10 months and above had been hardly seen.

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



		2012Q2	2013Q2	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2
Ratio of Free Rent Granted	1. One day and above	77.5%	67.2%	70.0%	64.5%	70.0%	56.0%	58.5%
	2. Two months and above	69.8%	63.6%	63.8%	59.7%	63.8%	53.2%	54.0%
	3. Six months and above	48.4%	38.4%	31.0%	25.1%	31.0%	20.4%	25.0%
Average Free Rent (Month)	4. All the contracts	4.4	4.1	3.5	3.1	3.5	2.7	2.8
	5. Contracts with free rent	5.7	6.1	5.0	4.8	5.0	4.7	4.7

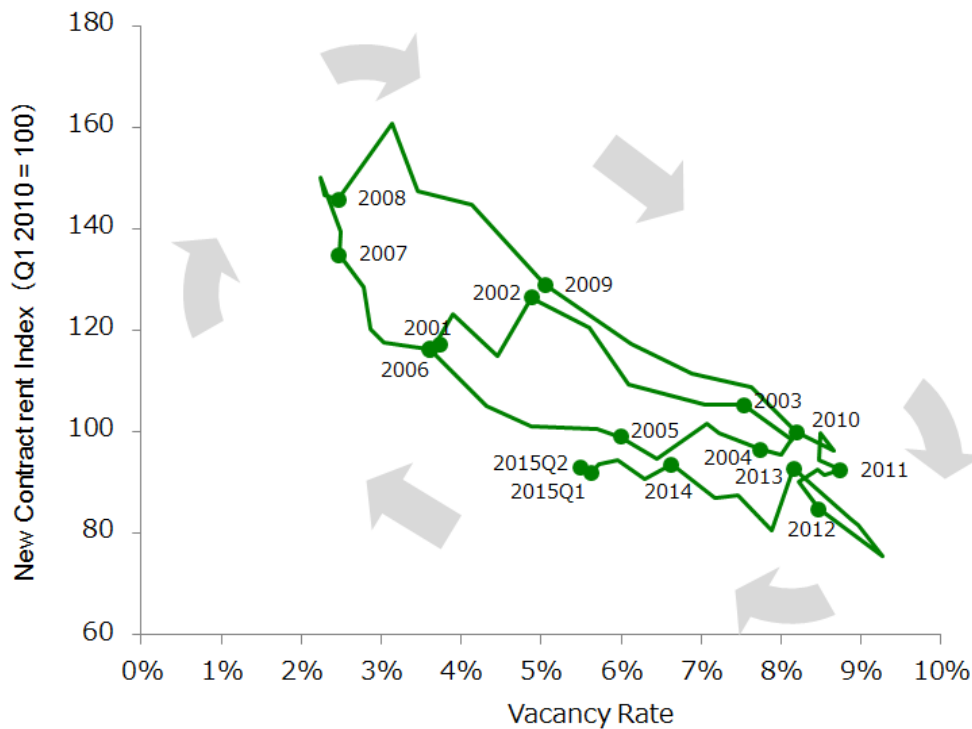
5. Office Market Cycle

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, although it is not as buoyant as in 2005-2006, the office space market as of 2015 is recovering from the doldrums started in 2010, with a modest vacancy decrease and rent increase.

Figure 7: Office Space Market Cycle in Tokyo 23 Wards



Source: Xymax Real Estate Institute (Vacancy rates before March 2011 are based on data by 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)	27,002 buildings	1,320 contracts	1,001 contracts	200 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
Relations between indices	http://www.xymax.co.jp/english/research/images/pdf/20141031.pdf

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
Q2 2015	5.27%	93	100	94	11	8	58.5%	54.0%	25.0%	2.8	4.7