

NEWS & RELEASE

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Paying Rent Index is released

The new index shows changes in office rents paid by tenants and underlines the stability of office properties.

Xymax Real Estate Institute developed a new index Payment Rent Index based on the data of lease contracts signed for office buildings in Tokyo 23 Wards. This index will be released every quarter on our website.

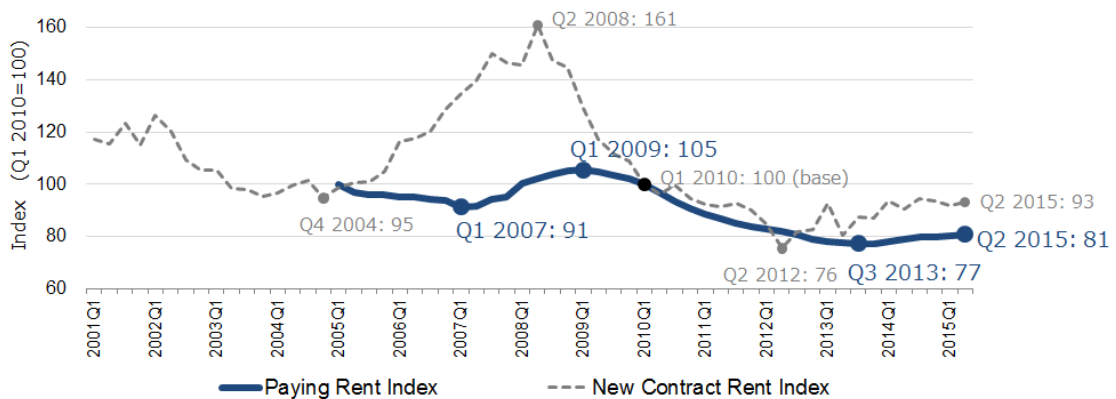
Up until now many real estate market indices based on new rents existed, but those based on paying rents* which represents tenant's office rents and the income streams from office buildings did not exist in the past.

* Paying rents include not only new rents, which are the rents agreed by new tenants, but also existing rents, which are the rents agreed by existing tenants, and are largely influenced by ongoing relationship between the owner and the tenant, meaning existing rents are determined based on a different mechanism compared to new rents which are basically determined based on market balance.

Paying Rent Index (Figure 1), which we have developed, shows changes in office rents over time and has the following unique features:

1. Sample data includes both new rents and existing rents.
2. Rents are based on tenants rather than office buildings.
3. Statistical approach (Hedonic approach) is used to adjust the use of different sample data, deterioration of office buildings due to age, and changing preference of tenants.

Figure 1: Paying Rent Index (Q1 2005 – Q2 2015)



This index will be a useful tool for real estate owners and investors in understanding actual income from office buildings and making appropriate decisions. The income stability of office buildings was not easy to demonstrate with quantitative data, but now this index will help market participants understanding the stability and giving an explanation on the stability. It is also expected that this index can be a benchmark for office tenants in making strategic decisions based on the understanding of changes of entire rents including those of spaces they have been occupying. (See following pages for the data, analysis, index overview and index data to date.)

1. Data Used in This Index

The subject of this index is office buildings in Tokyo 23 Wards in which Xymax provides property management services. Xymax developed a database where data of lease contracts and memorandums signed by tenants are entered into. We used this database and calculated rents per tsubo for each tenant. Each sample data is based on this rent per tsubo after adjusting property-specific influences such as location, size and quality of the building.

The sample data for the latest quarter, which is the second quarter of 2015, was 4,374 tenants in 187 buildings. The average gross floor area was 5,111 tsubo (1 tsubo = 3.3 sqm). The average building age was 23.63 years. The key features and distribution of the data are presented in 4. Index Overview.

We have, however, excluded buildings that do not represent a typical image and specifications of office buildings, such as those listed below:

- Spaces that are not used as office but used as warehouse, retail, etc.
- Spaces on below-ground floors and ground floor (first floor)
- Office buildings with less than 300 tsubo gross floor area or less than 30 tsubo typical floor area.
- Any outlier not mentioned above.

2. Calculation of Paying Rent Index

Due to the characteristics of the samples, the number of samples for each quarter differs as tenants may move in and out and our management services may start and end. Because of this, average rents increase if a large new office building is included in the samples, and they decrease if such building is excluded from the samples. Accordingly a simple comparison of average figures is not enough when tracking changes of the rent level.

To remove such property-specific influences from the index, we used the hedonic approach, a method often used in Consumer Price Index (e.g. personal computers of which specifications change quite often).

Figure 2 is Paying Rent Index derived from the calculation. The index shows a cyclical pattern with a peak in the first quarter of 2009 and a bottom in the third quarter of 2013. The latest quarter, the second quarter of 2015 was 81, indicating a slow recovery from the bottom of the cycle.

Figure 2: Paying Rent Index (Q1 2005 – Q2 2015)

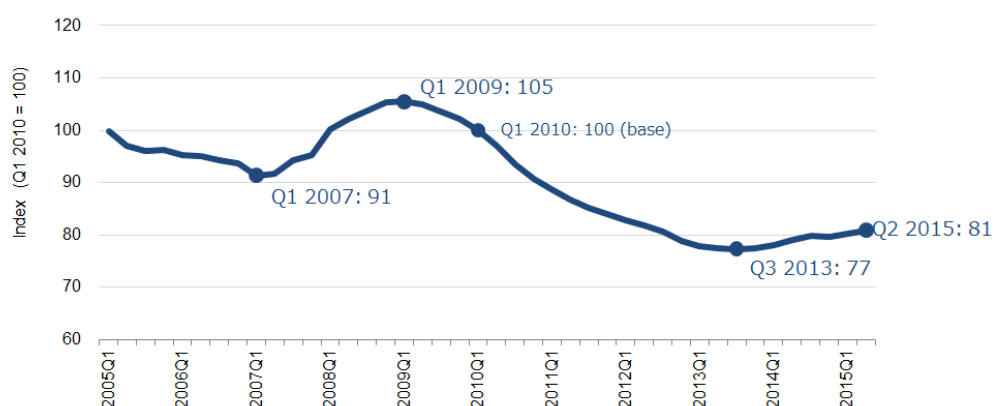
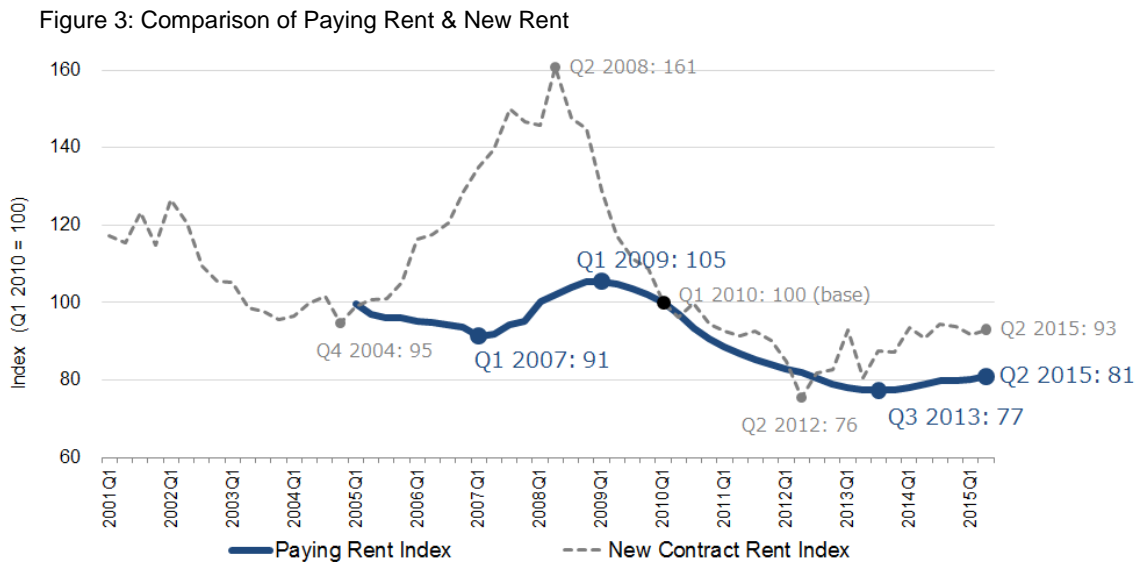


Figure 3 compares Paying Rent Index with New Contract Rent Index*. Both of the indices have seven- to eight-year cycle.

*See Xymax New Contract Rent Index released on September 19, 2014 for details of New Contract Rent Index.

The latest peak of the new rents was the second quarter of 2008 while the paying rents, which include both new and existing rents, lagged about a year behind with a peak in the first quarter of 2009. The bottom of the cycle of the new rents was in the second quarter of 2012 while that of the paying rents lagged about one and a half years behind and bottomed in the third quarter of 2013. If we look at the highs and lows, the volatility is smaller for the paying rents (105 – 77) than for the new rents (161 – 76).

Thus, the comparison of the two indices shows that paying rents have a relatively stable stream with slower changes and smaller volatility than new rents.



3. Analysis

This section analyzes what are behind our findings pointed out in the preceding section, which is: Paying rents have a relatively stable stream with slower changes and smaller volatility than new rents.

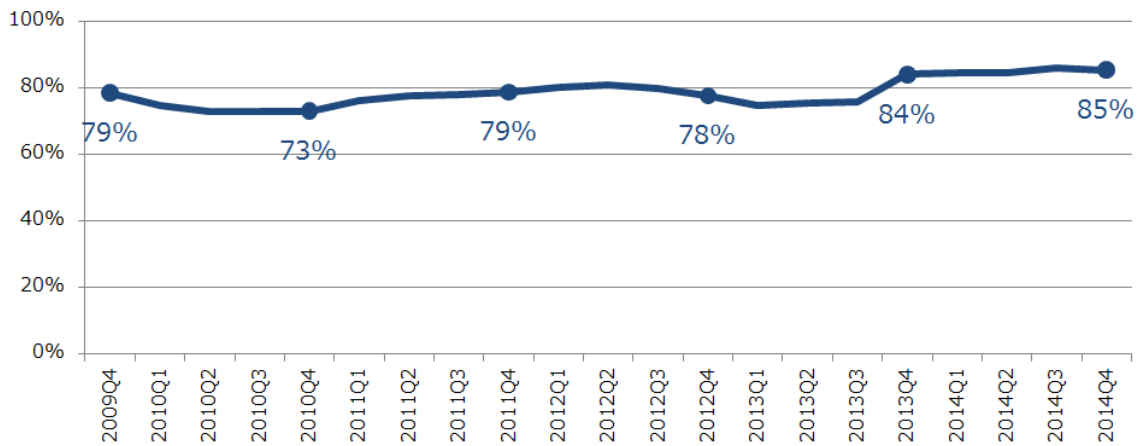
We calculated the percentage of tenants who had no rent change in the past 12 months based on the tenant's contract data. The percentage was 78.5% for the fourth quarter of 2009. The breakdown of the "no rent change" was as follows: Tenants who had no event of rent change (such as renewal of the contract), represented as (1) in Figure 4; Tenants who were replaced by other tenants but the rent remained the same, represented as (2) x (3) in Figure 4; and Tenants who signed a renewed lease contract but the rent remained the same, represented as (4) x (5) in Figure 4.

Figure 4: Events of Possible Rent Change and Results

	Total			
		Increased	No change	Decreased
No event	31.6% (1)	-	-	-
Tenant departed (space remained vacant)	5.0%	-	-	-
Tenant change	2.0% (2)	20.0%	5.7% (3)	74.3%
Lease contract renewal	61.4% (4)	8.5%	76.2% (5)	15.3%

Figure 5 is a quarterly data of the percentage of tenants with no rent change in the past 12 months. During this period, market had both upturns and downturns, but the percentage remained around 80%, indicating that paying rents are less vulnerable to market fluctuations.

Figure 5: Percentage of Tenants Who Had No Rent Change in Past 12 Months



Behind this result is that when tenants consider whether to terminate or revise their current lease contracts, they decide based on their current business conditions and corporate strategy. Relocating office may benefit the company as they achieve cost reduction, improve work efficiency or have a better location. On the other hand, however, there are also some downsides. Companies must pay the moving costs and restoration costs and may risk increasing rents depending on the market conditions at that time.

Whereas for owners, replacing a tenant is a chance to increase rental income, but there is also a variety of risks such as leasing costs (fees to agents), downtime until occupancy by new tenants, and income loss caused by free rents given to the new tenants at the start of the lease.

Tenants and owners negotiate their current lease and decide whether to terminate, agree to increase/decrease the rent or leave the rent unchanged considering their own situation.

Based on the above, paying rents (new rents and existing rents) have a relatively stable stream with slower changes and smaller volatility than new rents because the existing rents are influenced not only by the office space market trends but also by the situation of tenants and owners as well as negotiations between them.

This analysis is detailed on page 61-67 of "Micro Structure of Office Rent Change, Analyzing the Income Stability of Office Property" Real Estate Securitization Journal vol. 26 August 2015.

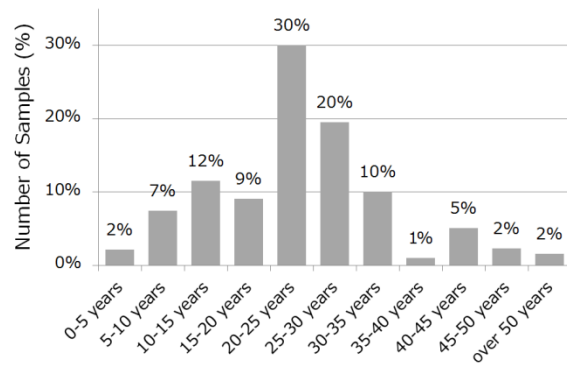
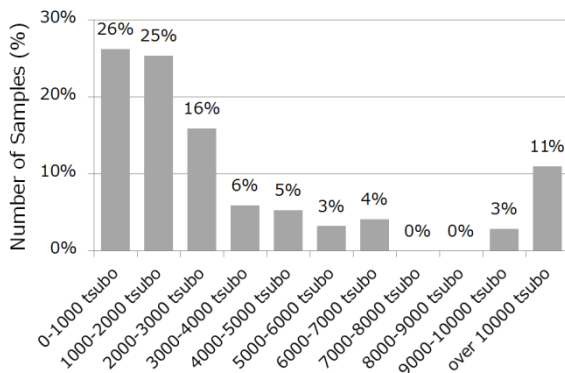
4. Paying Rent Index Overview

Name	Paying Rent Index
Explanation	Changes in office rent per tsubo paid by corporate tenants. (Contracts with new tenants and contracts with existing tenants are both included.)
Subject	Office buildings in Tokyo 23 Wards
Calculation unit	By tenant
Period	Q1 2005 – Q2 2015 (continue)
Release frequency	Quarterly
Time lag between data and release	approx. 40 days
Source of data	Data of lease contracts with tenants in office buildings in which Xymax provides real estate management services.
Number of samples	4,347 tenants in 187 buildings (Q2 2015)
Index approach	Hedonic approach
Unique features	<ol style="list-style-type: none"> 1. Sample data includes both new rents and existing rents. 2. Rents are based on tenants rather than office buildings. 3. Statistical approach (Hedonic approach) is used to adjust the use of different sample data, deterioration of office buildings due to age, and changing preference of tenants.

Basic Statistics

	Unit	Sample	Average	Standard Deviation	Min.	Max.	Comments
Rent per tsubo	yen/tsubo	4374	17,506	6,999	6,100	62,093	
Gross floor area	tsubo	4374	5,111	8,389	306	31,052	
Central 3 wards dummy	(0,1)	4374	0.54	0.50	0.00	1.00	1: Chiyoda, Chuo and Minato wards 0: Other
Floors above ground	floor	4374	11.30	6.47	4.00	34.00	
Typical floor area	tsubo	4374	256	323	30	1,810	
Minutes on foot from station		4374	3.48	2.07	0.00	10.00	
Age	year	4374	23.63	10.19	1.00	54.50	
Raised floor dummy	(0,1)	4374	0.71	0.45	0.00	1.00	1: Raised floor 0: Other
Individual A/C dummy	(0,1)	4374	0.83	0.38	0.00	1.00	1: Individual air conditioner 0: Other
Automated security system dummy	(0,1)	4374	0.90	0.30	0.00	1.00	1: Automated security system 0: Other
Large building dummy	(0,1)	4374	0.21	0.41	0.00	1.00	1: Gross floor area is 5000 tsubo or greater 0: Other

Distribution of Data (Gross Floor Area & Age of Buildings)



5. Changes of Paying Rent Index

	Paying Rent Index	(Reference) New Contract Rent Index
Q1 2005	100	99
Q2 2005	97	101
Q3 2005	96	101
Q4 2005	96	105
Q1 2006	95	116
Q2 2006	95	118
Q3 2006	94	120
Q4 2006	94	129
Q1 2007	91	135
Q2 2007	92	139
Q3 2007	94	150
Q4 2007	95	147
Q1 2008	100	146
Q2 2008	102	161
Q3 2008	104	148
Q4 2008	105	145
Q1 2009	105	129
Q2 2009	105	117
Q3 2009	104	111
Q4 2009	102	109
Q1 2010	100	100
Q2 2010	97	96
Q3 2010	93	100
Q4 2010	91	94
Q1 2011	89	93
Q2 2011	87	91
Q3 2011	85	93
Q4 2011	84	90
Q1 2012	83	85
Q2 2012	82	76
Q3 2012	81	82
Q4 2012	79	83
Q1 2013	78	93
Q2 2013	78	81
Q3 2013	77	87
Q4 2013	77	87
Q1 2014	78	94
Q2 2014	79	91
Q3 2014	80	94
Q4 2014	80	94
Q1 2015	80	92
Q2 2015	81	93