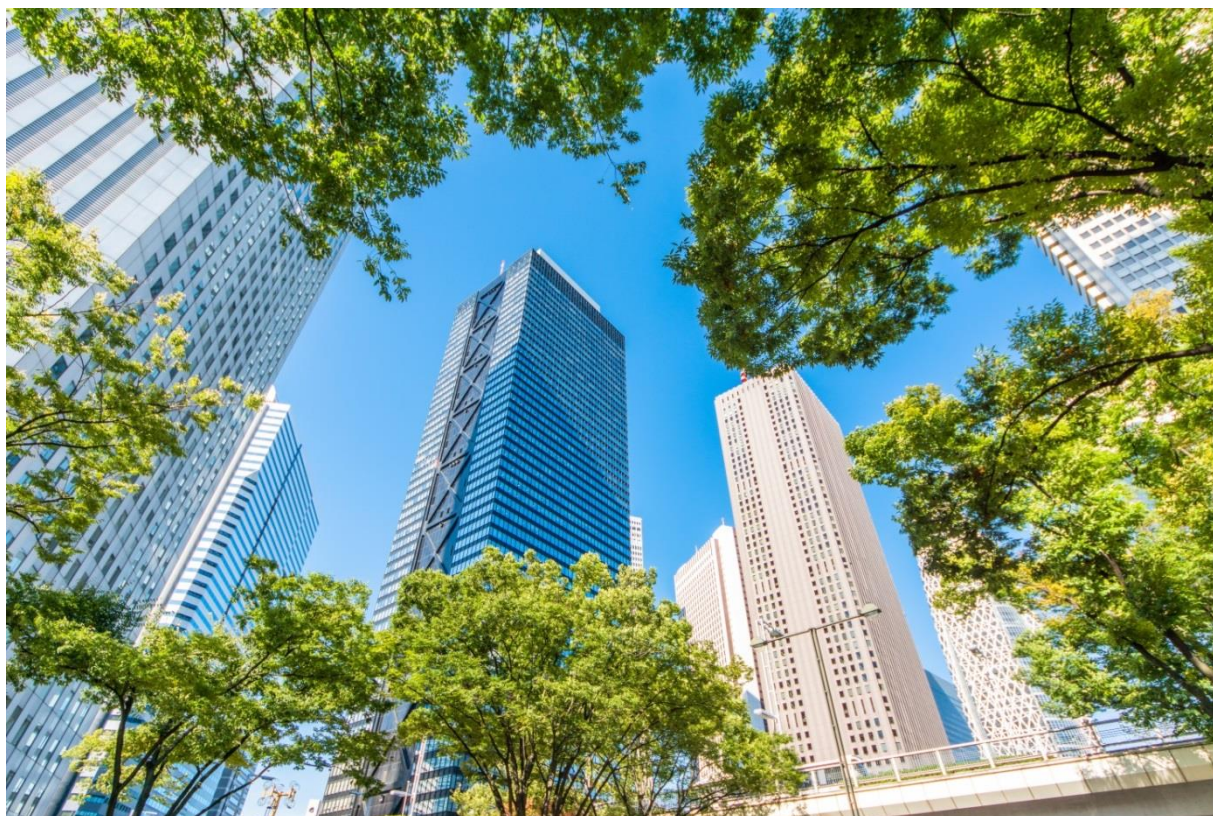


Office Market Report

Tokyo | Q1 2016

April 28, 2016



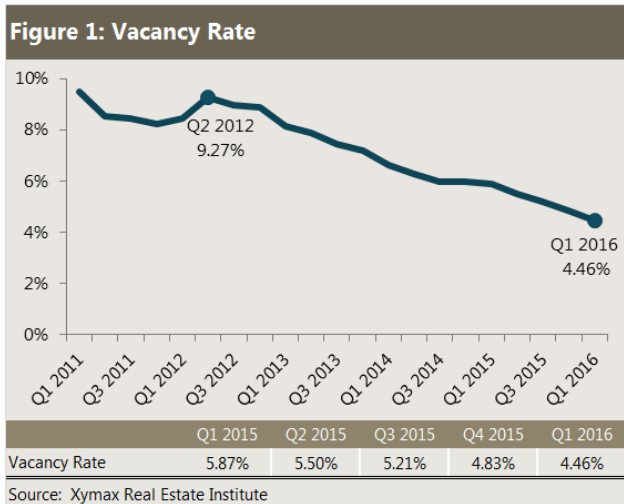
Summary

- In Tokyo 23 Wards' overall office market, both the vacancy rates and contract rent continued to improve reflecting the stable demand from corporate tenants and the limited supply of new spaces. A full-fledged rent recovery is, however, achieved only in some cases because companies are cost conscious. Therefore the overall rental growth remains slow.
- Vacancy rates were 4.46%, decreased by 0.37 points from previous quarter; 15 straight quarters of decrease. Available spaces particularly in large buildings are steadily taken up by companies who are planning to consolidate and/or relocate their offices.
- New Contract Rent Index (level of new rents) was 97; an increase of 1 point from previous quarter. Contract Rent DI (ratio of buildings with rent increase minus ratio of buildings with rent decrease) was +17. The rent is growing at a modest pace.
- Paying Rent (level of new rents and existing rents combined) was 84; an increase of 2 points from previous quarter.
- Average Free Rent Month was 3.2 months, an increase of 0.3 months from previous quarter. Six-month free rents were given to 35.2% of all the contracts, an increase of 6.6 points from previous quarter.

Office Market Report | Tokyo | Q1 2016

All the contents are as of the date of this report. Xymax Corporation does not guarantee the accuracy or completeness of the information herein. Copying, quoting, forwarding, distributing, reprinting or any other use of this report is not allowed without prior permission from Xymax Real Estate Institute Corporation.

Copyright © 2016 Xymax Corporation. All rights reserved.



Vacancy

Figure 1 shows changes in vacancy rates in Tokyo 23 Wards since 2011. The vacancy rates in the first quarter of 2016 decreased for the 15th consecutive quarter to 4.46%, a decrease of 0.37 points from 4.83% in the previous quarter.

Demand for office spaces remains strong as many companies plan a forward-looking relocation.

Vacancy rates in overall Tokyo are steadily decreasing led by the active leasing in the central five wards. In some cases, new constructions in central Tokyo are fully leased before completion.

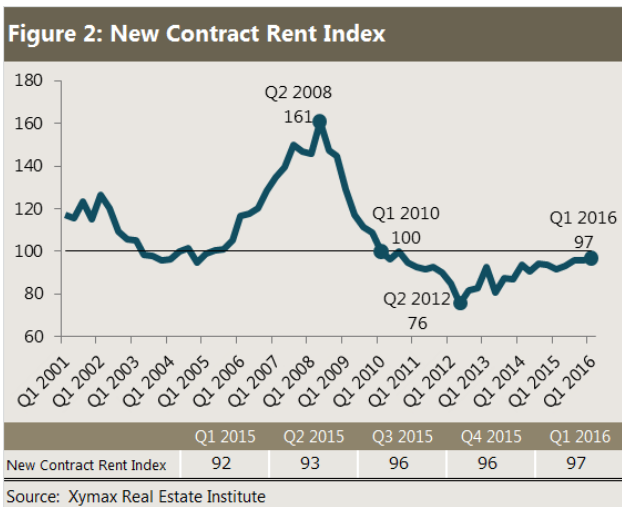
There is a constant strong demand for large buildings as many companies are consolidating or relocating offices to achieve higher work efficiency. The demand is now expanded into the periphery areas such as Shinagawa Seaside because centrally-located available spaces are still extremely limited.

Available spaces are also rapidly disappearing in medium-size buildings with a typical floor of 100-200 tsubo as they are highly regarded by potential tenants for its usability and affordable rent level.

The factor behind this is the demand from companies who are becoming more interested in the above-average grade office buildings; these companies are looking for a space for the purpose of expanding business, attracting new employees or achieving higher work efficiency. This explains why the vacancy rates of well-equipped buildings in a prime area are decreasing.

On the other side, however, the economic outlook is rather uncertain. Many companies who wish to relocate do not want an increase of fixed cost and therefore accept only a minimum rent increase as possible. As centrally-located new buildings are having a shortage of availability and an increase of rents, many companies are easing their requirements of location or specifications and consider offices from a wide range of choices.

Some companies decided to postpone the relocation plan because they were not able to find a suitable office



space. In such case, instead of relocation, companies sometimes implemented ideas to improve the work efficiency in their current office such as changing layout or interior, organizing piles of papers or allowing alternative working style.

New Contract Rent

Figure 2 shows changes in New Contract Rent Index, an index of rent agreed for new lease. The first quarter of 2016 was 97; a slight increase by 1 point from 96 in the previous quarter. Although demand is strong and supply is short, the rent in the overall market continues to grow only at a modest pace.

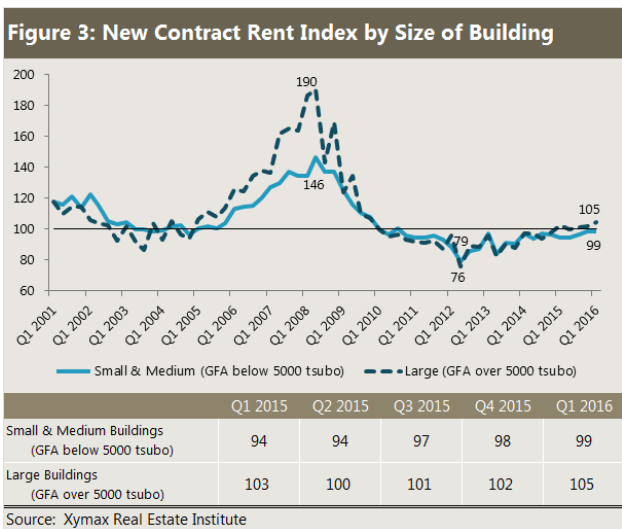
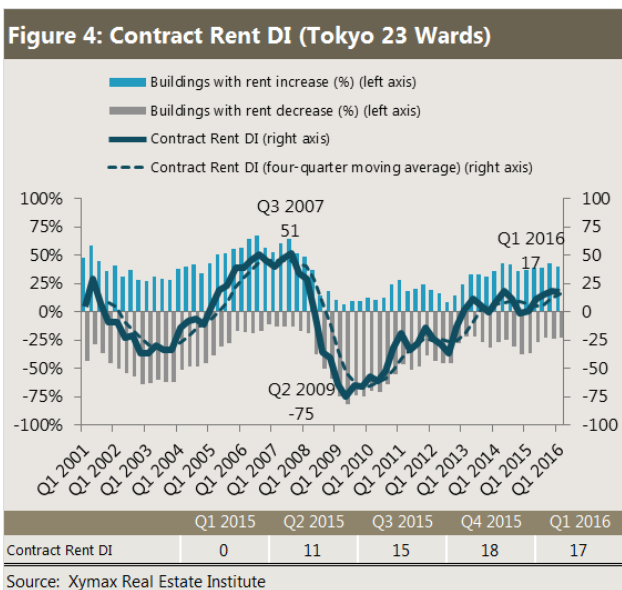


Figure 3 shows changes in New Contract Rent Index by size of buildings. The index for small and medium office buildings (gross floor area: below 5,000 tsubo) was 99 while that of large office buildings (gross floor area: over 5,000 tsubo) was 105. This result indicates that the rent of small and medium office buildings continues to grow slowly while that of large buildings is starting to increase more rapidly than before.



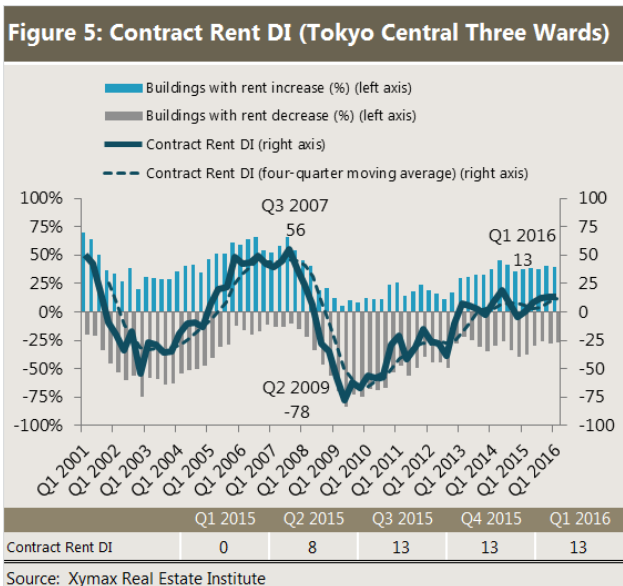
One reason behind the rental growth of large buildings is that many corporate tenants are still relocating for the purpose of achieving improved work efficiency. Large buildings are particularly in demand because they can offer a large floor plate. As a result, availabilities in large buildings in central Tokyo are drastically being reduced and companies have no way but to consider relocating to the periphery area. Large buildings are therefore starting to see a strong rental growth regardless of where the building is situated.

The rent of small and medium buildings is on the rise responding to the decrease in vacancy rates. This growth is, however, only at a modest pace because some buildings do not quite meet the relocation demand due to the building's specifications and location.

Office Market Report | Tokyo | Q1 2016

All the contents are as of the date of this report. Xymax Corporation does not guarantee the accuracy or completeness of the information herein. Copying, quoting, forwarding, distributing, reprinting or any other use of this report is not allowed without prior permission from Xymax Real Estate Institute Corporation.

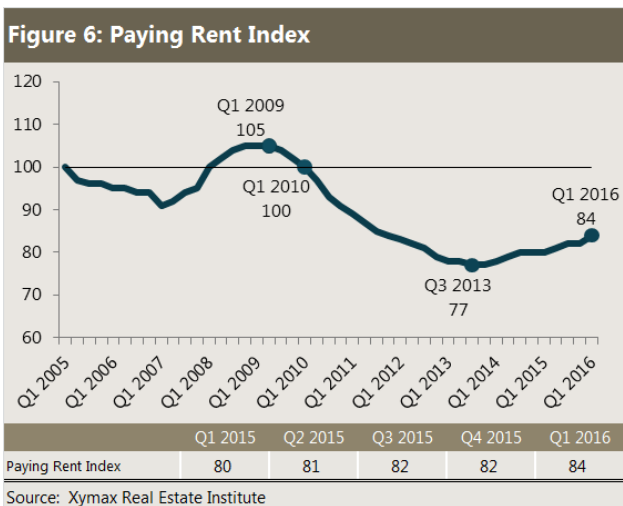
Copyright © 2016 Xymax Corporation. All rights reserved.



Figures 4 and 5 are changes in Contract Rent Diffusion Index (DI). The first quarter of 2016 was +17 for Tokyo 23 Wards and +13 for Central Three Wards; both increased for four quarters in a row, indicating that the number of buildings with rent increase continued to exceed the number of building with rent decrease.

DI for Tokyo 23 Wards indicates a stable move in the recent four quarters: the ratio of the buildings with rent increase stayed around 40% while that of the buildings with rent decrease was between 20% and 30%.

Reflecting the shortage of available space in large buildings in prime location, companies looking for an office space are becoming more flexible when choosing a space to relocate. The buildings, which had not been preferred in the past, have now being leased and the rents are growing in some cases. In the overall market, the recovery is spreading to broader areas.



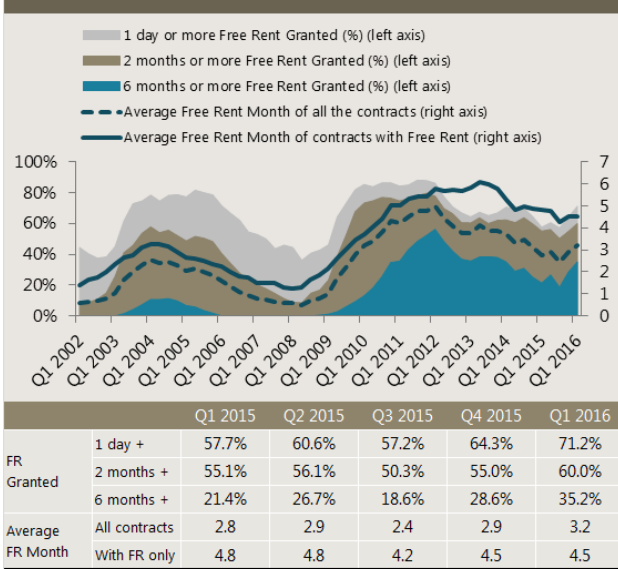
Paying Rent

Paying Rent Index, in which new contract rents and existing rents are both surveyed, show changes in the rents paid by companies for office space and the income generated from the office buildings. Figure 6 shows changes since 2005.

Paying Rent Index was 84 in the first quarter of 2016; an increase of 2 points from the previous quarter (based on Q1 2010 = 100); a first increase in three quarters. Paying Rent Index had been on a modest rise after bottoming in the third quarter of 2013, but now the pace has been slightly accelerated.

While the new rents are slowly increasing as mentioned, some landlords are also requesting a rent increase when the lease contracts of existing tenants are renewed, which is starting to drive Paying Rent higher.

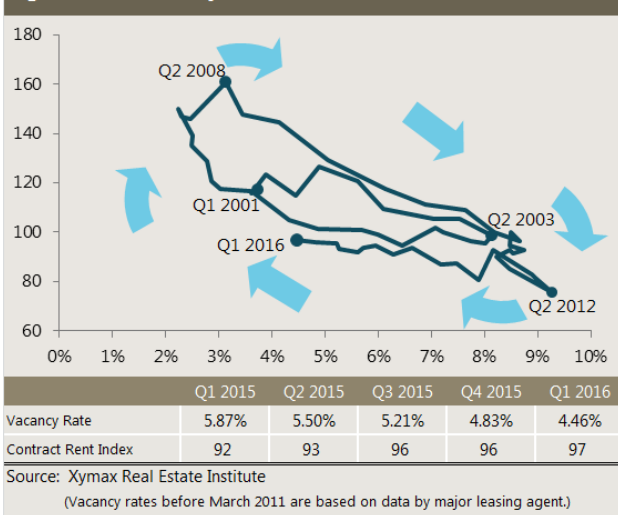
Figure 7: Free Rent



Source: Xymax Real Estate Institute

After a review of some data, figures for each quarter have been revised from the previous release.

Figure 8: Market Cycle



Source: Xymax Real Estate Institute

(Vacancy rates before March 2011 are based on data by major leasing agent.)

Free Rent

Figure 7 shows changes in the free rents given to all the new contracts (Ratio of Free Rent Granted) and changes in the average free rent period (Average Free Rent Month).

Ratio of Free Rent Granted increased in the first quarter of 2016 in all the categories. Although Average Free Rent Month with free rents remained flat, Average Free Rent Month of all the contracts increased further quarter-on-quarter to 3.2 months.

While two-to-three months' free rents are becoming a common practice, large buildings in central Tokyo are, in some cases, using free rents more strategically to achieve higher rents.

Market Cycle

Figure 8 is a graph plotted by quarter based on vacancy rates on the horizontal axis and New Contract Rent Index on the vertical axis.

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).

Office space market entered into the recovery phase. This mode continued in 2016 too. However, the rental growth is still weak compared to the solid decrease of vacancy rates. The vacancy rates have been already close to the point where rents started to grow in the previous market cycle. The drastic rental growth is seen in some cases but a full-fledged rental increase of overall Tokyo 23 Wards is yet to come. Uncertain economic outlook and oversupply of office spaces ahead of the Olympic Games are part of the concerns in the market. Therefore it is important to keep a close eye on the market movements.

Reference

Figure 9: Major Building Completions (Q1 2016)

Name	Floors	Ward	Address	Completion	GFA
Urban Net Nihombashi 2-chome Building	10 + B1	Chuo	2-1-3 Nihombashi	Jan 2016	2,852 tsubo
Mark Light Toranomom	13 + B1	Minato	2-3-1 Nishi Shinbashi	Feb 2016	2,471 tsubo
JR Shinjuku Miraina Tower	32 + B2	Shinjuku	4-1-6 Shinjuku	Mar 2016	23,000 tsubo
Sumitomo Fudosan Shinjuku Garden Tower	37 + B2	Shinjuku	3-8-2 Okubo	Mar 2016	16,885 tsubo
oak meguro	10 + B2	Shinagawa	2-13-30 Kamiosaki	Mar 2016	4,916 tsubo
Sumitomo Fudosan Nibancho First Building	7 + B1	Chiyoda	4-5 Nibancho	Mar 2016	4,053 tsubo
TRI-SEVEN ROPPONGI	14 + B2	Minato	7-7-7 Roppongi	Mar 2016	5,267 tsubo

Source: Compiled by Xymax Real Estate Institute based on information released by companies

Figure 10: Major Office Relocations (Q1 2016)

Company	From	To	Month Year	Purpose	Size
Nishimura & Asahi Law Firm	Ark Mori Building <i>Minato Ward</i>	Otemon Tower <i>Chiyoda Ward</i>	Jan 2016	N/A	5,000 tsubo
Bandai Namco Holdings	Head Office Building <i>Shinagawa Ward</i>	Sumitomo Fudosan Mita Building, <i>Minato Ward</i>	Jan 2016	Consolidation	5,400 tsubo
Fukoku Mutual Life Insurance	Fukoku Seimei Building <i>Chiyoda Ward</i>	Saiwai Building <i>Chiyoda Ward</i>	Mar 2016	Head office renovation	2,000 tsubo
D2C	Shiodome Sumitomo Building, <i>Minato Ward</i>	Nomura Fudosan Ginza Building, <i>Chuo Ward</i>	Mar 2016	Expansion	882 tsubo
NTT Finance	Seavans N <i>Minato Ward</i>	Shinagawa Season Terrace, <i>Minato Ward</i>	May 2016	Consolidation	3,000 tsubo
Marubeni Information Systems	Shibuya Minami Tokyu Building, <i>Shibuya Ward</i>	Sumitomo Fudosan Shinjuku Garden Tower <i>Shinjuku Ward</i>	May 2016	Termination	N/A
Pilot Corporation	Head Office Building <i>Chuo Ward</i>	Kanematsu Building Annex, <i>Chuo Ward</i>	May 2016	Head office demolish/build	873 tsubo

Source: Compiled by Xymax Real Estate Institute based on information released by companies.
The size of the office space is an estimate.

Overview of Our Researches					
	Vacancy Rate	New Contract Rent Index	Contract Rent DI	Paying Rent Index	Free Rent Granted (%) & Average Month
Description	Vacant space versus total office stock in the market.	Office rent index based on new contract rents. This index uses a statistical method to remove property-specific influences such as size and age of buildings.	Index of changes in new contract rents. Calculated by counting and comparing the buildings where rent has increased and those where rent has decreased.	Index of changes in paying rents (new and existing contract rents).	Free rent distribution and average period. Free rent is the time lag between the start of the contract and the start of the rent payment.
Main Point	Supply and demand balance in the market	Level of contract rents	Direction of contract rent trends	Level of rents paid by tenants	Market trends that are not reflected in contract rents
Sector	Office Building				
Market	Tokyo 23 Wards	Tokyo 23 Wards	Tokyo 23 Wards Tokyo Central 3 Wards	Tokyo 23 Wards	Tokyo 23 Wards
Building Size	All	All / Large / Small-Medium	All	All	All
Release	Every Quarter				
Data Source	Independently collected by Xymax. Data of available vacant space and building	Independently collected by Xymax. Data of new contract rents including CAM charge.	Independently collected by Xymax. Data of new contract rents including CAM charge.	Data of new and existing contracts signed for buildings under management by Xymax.	Data of new contracts signed for buildings under management by Xymax.
Data Used in Recent Quarter	28,490 buildings	730 contracts	959 contracts	4,047 contracts	125 contracts
How to Calculate	<ul style="list-style-type: none"> • Vacancy rate = vacant space ÷ rentable space • Vacant Space Total available vacant space in completed buildings as of the time of the research. • Rentable Space Rentable space of completed buildings as of the time of the research. <p>Where rentable space is not available, the rentable space is estimated from the gross floor area of the building using the formula developed in the joint study with the laboratory of Professor Naoki Kato at Kyoto University Graduate School of Engineering.</p>	<p>1) Develop a rolling hedonic model (overlapping period: five quarters) based on the collected new contract data with property-specific factors as variables (location, building size, building age, facilities, date of signing of lease, etc.).</p> <p>2) Estimate a quarterly contract rent by assigning the values of a typical building to the model developed in the preceding step.</p> <p>3) The outcome from the preceding step based on Q1 2010 as the base point (=100), is the New Contract Rent Index.</p> <p>This model show changes in new contract rents after removing property-specific variables.</p>	<p>1) Compare the data of new contract rent per tsubo with that in the 6-month prior period in the same building. Each data was counted separately into three categories: buildings with "rent increase", "no change" or "rent decrease"</p> <p>2) Calculate the share of buildings with "rent decrease" and buildings with "rent increase".</p> <p>3) Subtract the share of buildings with "rent decrease" from the share of buildings with "rent increase". This outcome is the Contract Rent Diffusion Index (DI).</p>	<p>1) Calculate the rent per tsubo of each tenant from the data of new and existing lease contracts and memorandums.</p> <p>2) Develop a rolling hedonic model (overlapping period: five quarters) based on the rents calculated in the preceding step (the "paying rent") with property-specific factors as variables (location, building size, building age, facilities, date of signing of lease, etc.).</p> <p>3) Estimate a quarterly contract rent by assigning the values of a typical building to the model developed in the preceding step.</p> <p>4) The outcome from the preceding step based on Q1 2010 as the base point (=100), is the Paying Rent Index.</p> <p>With this method, influences from replacement of sample data and deterioration of buildings over age are removed from the result.</p>	<ul style="list-style-type: none"> • Free Rent Period The period between the start of the contract and the start of the rent, shown in days. • Ratio of Free Rent Granted The percentage of contracts with free rent in all the new contracts (excl. contracts for expansion within the building and recontracts) • Average Free Rent (Month) of All the Contracts The simple average of the free rent period including lease contracts with no free rent. • Average Free Rent (Month) of 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, but such contracts are excluded from this research.</p>

Reference

Xymax REI Research Updates January 2016 - March 2016

How long will the tenants stay in the shopping center?

March 23, 2016

- Shopping center tenants stay 10.7 years on average. Annual departure rate of sixth-year tenants is particularly high, 18%.
- Core and semi-core tenants (≥ 150 tsubo) tend to stay longer, 18.8 years on average. After the sixth year, occupancy period of small/medium tenants (< 150 tsubo) becomes longer.
- Reference: Retail tenants in office buildings resemble the pattern of office tenants.

Electric Power Consumption by Office Tenants (December 2015)

March 4, 2016

- The electric power consumed by office tenants in the autumn of 2015 (average of Oct, Nov and Dec) was 33.8 kWh/tsubo; a YoY decrease by 3.4% from 35.0 kWh/tsubo in the autumn of 2014.
- The average consumption in 2015 was 37.1 kWh/tsubo; a YoY decrease by 3.4% from 38.4 kWh/tsubo in 2014.

Energy Consumption and Energy Cost in Office Buildings (December 2015)

March 4, 2016

- Energy Consumption: The level in 2011 continued. Remained nearly flat.
- Energy Price per Unit: Started to fall in March 2015. Five points down from previous study (Sep. 2015).
- Energy Cost: Decreased following the price drop. Four points down from previous study (Sep. 2015).

Office Stock Pyramid 2016

January 29, 2016

- Office Stock Pyramid 2016 was released. In this pyramid chart, building stock in Tokyo is divided into two categories; small/medium buildings and large buildings. The volume of the stock (rentable area, number of buildings) for each age group is compared.
- Small and medium buildings in Tokyo are 28.4 years old while large buildings are 22.0 years old on average. Stock is aging; especially the small and medium buildings.

Contact

Xymax Real Estate Institute
Phone: +81 3 3596 1477
Fax: +81 3 3596 1478
info-rei@xymax.co.jp