

Average Offer Periods of Offices

Analysis of offer period for office blocks in Tokyo 23 wards

February 1, 2018

Xymax Real Estate Institute (hereinafter, "Xymax REI") has continuously made various analyses focusing on vacancies. In addition to vacancy rates it publishes on a regular basis, Xymax REI published the "Survey Report on Change in Vacancies" in January 2017, which captured the volume of vacancies in the market.

In this report, Xymax REI conducts a statistical analysis on the "offer period," which is the duration of time from when a vacant office is put on offer to seek a new tenant until the end of the offer.

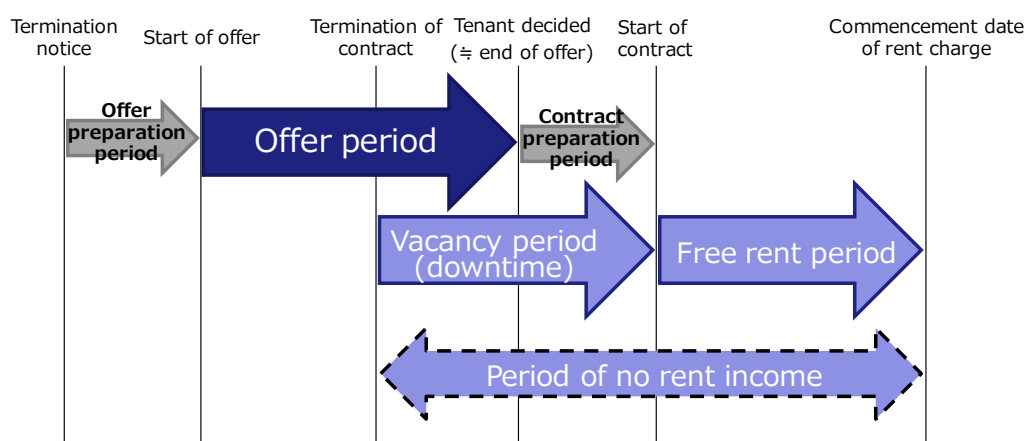
Summary of Survey Results

1 tsubo = approx. 3.3 sq m

- The average offer period for blocks used as office in the Tokyo 23 Wards is five months.
- (By location) Five central wards: five months; 18 peripheral wards: six months
- (By size (gross floor area)) Less than 5,000 tsubo: five months; 5,000 tsubo or more: four months
- (By building age) Less than 20 years: four months; 20 years or older: five months
- (By size of office block) Less than 100 tsubo: five months; 100 tsubo or more: five months

In most offices, a termination notice is submitted to the owner six months prior to termination of the rent, after which, following a preparation period, the owner starts seeking tenants and ends the offer when the new tenant is decided. The length of the offer period is a major concern for many building owners and investors since it affects the cost for seeking tenants, as well as the period with no rent income such as gaps between lease agreements* and free rent periods. **Figure 1** summarizes such periods.

Figure 1: Various Periods that Arise During Tenant Replacement



In this analysis, Xymax REI calculated the offer period in monthly units based on the office vacancy data for the Tokyo 23 Wards gathered by Xymax. The analysis does not include vacancies for which

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offers are not made in the market, such as expansions within the same property.

*See "Downtime of New Lease in Tokyo: 98.5 days (approx. 3 months)" published on January 6, 2014.

https://soken.xymax.co.jp/2014/01/06/140106-downtime_of_new_lease_in_tokyo/

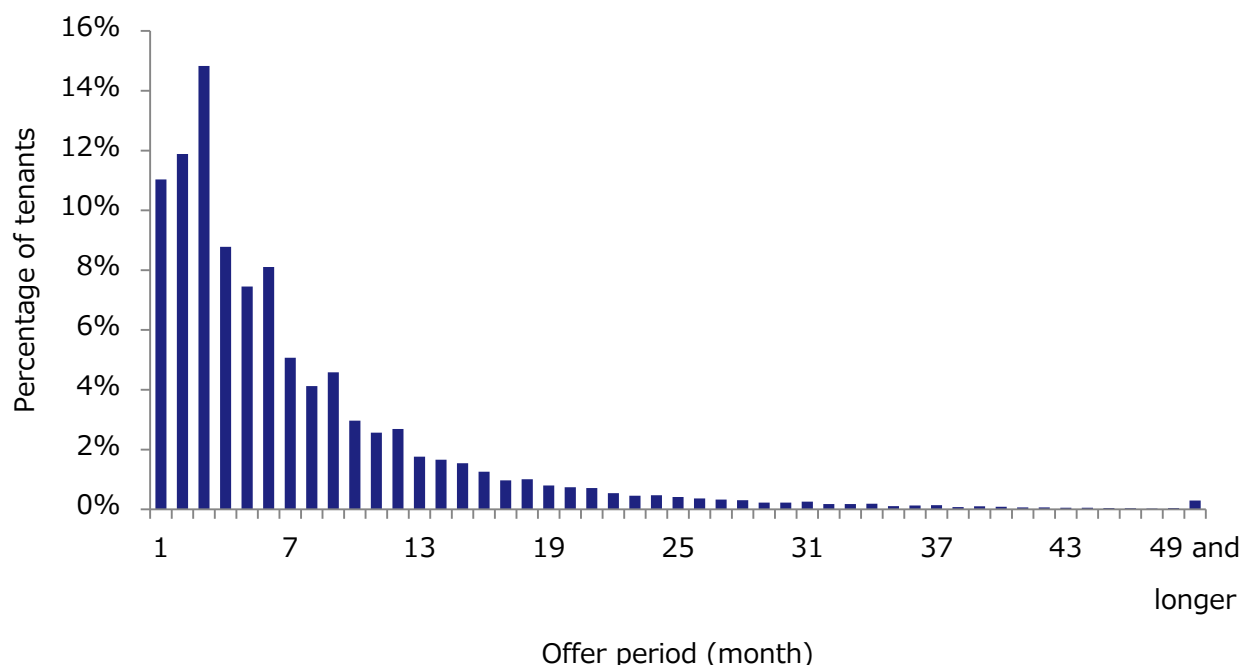
Analysis Results

Figure 2 indicates the distribution of offer periods over the analysis period (2012–2017). While 60% of the data are distributed in a period of six months or less, long periods extend to three or four years. Although the average figure is 7.37 months, this has been pushed longer by data with extremely long offer periods and does not represent the overall picture. Therefore, this survey seeks to capture the real situation by defining the median value* as the average offer period.

The average offer period calculated using data for office blocks for which offers started after 2012 and ended before December 2017 was five months (i.e. the offer period for half of the office blocks was shorter than five months and that for the remaining half was longer than five months).

*A median value is the value positioned at the center when data are aligned in ascending order. It is less affected by outliers compared to an average value and is used as a representative value of asymmetrical distributions such as those for annual income. (In the case of symmetrical distributions, the average value will be equal to the median value.) As shown in **Figure 2**, this analysis treats the median value as the average offer period since the distribution is asymmetrical.

Figure 2: Distribution of Offer Periods (Month)



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Figure 3 shows comparisons of average offer periods among target blocks classified by attribute (location, size, age) and size of office block.

Compared by location, the offer period was shorter in central locations (five central wards: five months; 18 peripheral wards: six months). By size, the offer period for large offices was slightly shorter (gross floor area of less than 5,000 tsubo: five months; 5,000 tsubo or more: four months). A comparison by age shows that offices in buildings less than 20 years old had shorter offer periods (age less than 20 years: four months; age 20 years or older: five months). There was no difference in the offer period when compared by office block size (less than 100 tsubo: five months; 100 tsubo or more: five months).

Figure 3: Average Offer Period (Month) by Location, Size, Age, and Size of Office Block

By location

5 central wards	5
18 peripheral wards	6

By size (gross floor area)

Less than 5,000 tsubo	5
5,000 tsubo or more	4

By building age

Less than 20 years	4
20 years or older	5

By office block size

Less than 100 tsubo	5
100 tsubo or more	5

Figure 4 indicates changes in offer periods through time. For each year, the average offer period was calculated for office blocks that ended their offer.

Figure 4: Average Offer Period (Month) by Year

2013	5
2014	6
2015	5
2016	5
2017	5

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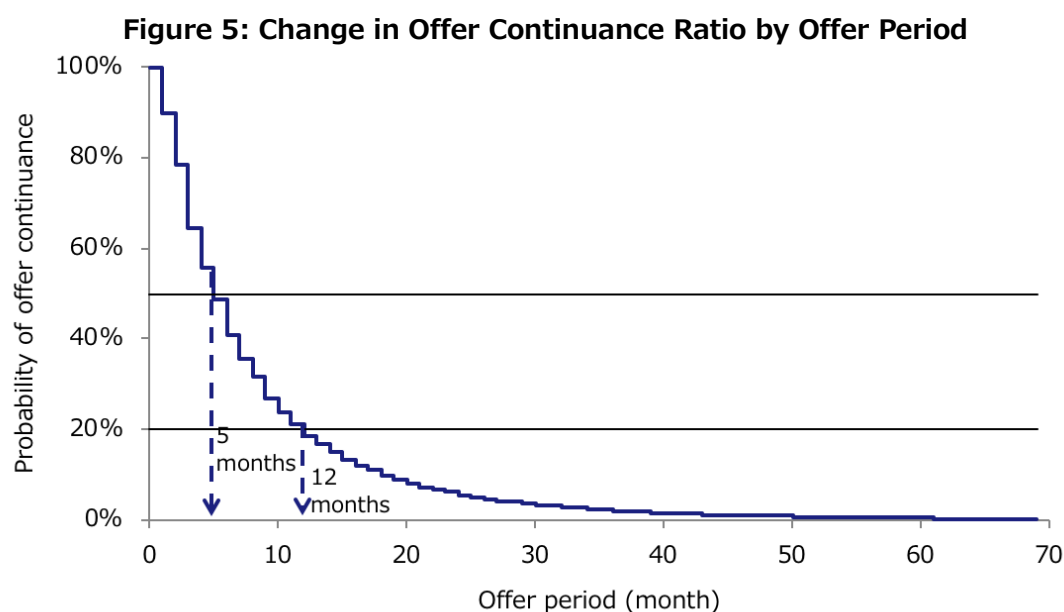
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(Reference) Estimate of Offer Periods Including Office Blocks on Offer

The above analysis targets office blocks for which offer has ended (i.e. tenant was found), and does not take into consideration the offer periods for office blocks where offer is ongoing (i.e. remaining in market). Offer periods for blocks seeking tenants will continue to increase and will be determined when the next tenant is found. The average offer period may become longer if an offer ends for an office block that was on offer for a long period of time, and vice versa. We verified the length of the average offer period for cases where office blocks on offer were taken into consideration.

We used the Kaplan-Meier method*, which enables the estimation of an average offer period while distinguishing indeterminate data such as office blocks on offer from office blocks where offer has ended.

Figure 5 shows the change in the offer continuance ratio due to the offer period, as derived by the Kaplan-Meier method. It illustrates how the offer continuance ratio drops from 100% at the start of offer (0 months) as the offer period becomes longer and tenants are found, resulting in the end of offers for the office blocks.



The analysis indicates that the duration of time until exactly half of the office blocks end their offer is five months, which is the same as the aforementioned median value (average offer period) for office blocks for which offer has ended. The analysis also shows that 80% of office blocks end their offer within 12 months (one year), while the remaining 20% continue the offer beyond one year.

*Kaplan-Meier method

A method of survival analysis (an analysis of the expected duration of time until events happen, such as death, failure in mechanical systems, and termination of contracts, and factors generating the events by modeling the occurrence rates of the events). It is used in fields such as medical, engineering, and marketing. The Kaplan-Meier method was used in this survey to clarify the trend of the probability of offer continuance of an office block while distinguishing indeterminate data such as office blocks on offer from office blocks where offer has ended.

Reference: John P. Klein, Melvin L. Moeschberger, *Survival Analysis*, trans. Mamoru Uchinami

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Summary

Vacancies undergo an extensive process of coming to market (start of offer), being acknowledged by the public, considered for potential occupancy, and negotiated between borrower and lender to reach an agreement between needs and conditions (end of offer). The length of the offer period is an important indicator for real estate owners and investors in estimating the cost for seeking tenants, the period of no rent income, and the rent level for the next tenant.

This survey has revealed that the average offer period for vacant offices was five months. Considering that rent termination is usually notified about six months in advance, it may be close to reality to think that the percentage of successfully finding the next tenant before the previous tenant vacates the office is around 50%.

In terms of building attributes, the offer period was also around five months, albeit slightly shorter for “large-scale (5,000 tsubo or more),” “new” properties in the “five central wards.” While “new” and “large” properties with “good access” often dominate in many real estate-related indicators such as rent levels, their dominance was small in offer periods.

Changes in the average offer period were hardly observed through time, with effects due to changes in the market not confirmed, unlike rent, etc.*

*Please note that the targets of this survey are vacant offices that are already on offer to the public. In a situation where the vacancy rate is low and stock is scarce, there seems to be a certain number of properties where the next tenant is decided before the property comes to market. We have heard from leasing brokers that expansions within the same property correspond to such cases, which can often be seen in the recent real estate market.

Xymax REI intends to carry out surveys on the office market on a continuous basis, including why offer periods are relatively immune to location, property specifications, and changes in the market, the factors affect offer periods, and the relationship between the advertised rent and the actual rent.

Survey Overview

Name	Offer period analysis
Characteristics	The average duration of time from the start to end of an offer (median value is adopted)
Target	Blocks for office use in completed properties located in the 23 wards of Tokyo
Aggregation Unit	In office block units (3 tsubo – 2,000 tsubo)
Aggregation Period	2012–2017
Data Source	Vacancy block data and property data independently gathered by Xymax
Number of Data	Number of office blocks where offer ended: 101,378 Number of office blocks where offer is ongoing as of end of 2017: 6,556

Please contact below for inquiries on this report

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