

## Office Offer Period and Asking Rent

Analysis on offer periods and asking rent of office blocks in Tokyo 23 Wards

July 20, 2018

Xymax Real Estate Institute (hereinafter, "Xymax REI") has continuously conducted various analyses focusing on vacancies. In addition to vacancy rates and the survey on change in vacancies it publishes on a regular basis, Xymax REI published the "offer period,"<sup>\*1</sup> which is the duration of time from when a vacant office is put on offer until the end of the offer, in February 2018.

In this report, Xymax REI analyzes the relationship between the offer period and asking rent.

\*1 "Average Offer Periods of Offices" February 1, 2018

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### Summary of Survey Results

- A survey on changes in rent during offer periods revealed that 82.6% of office blocks did not change the rent, 12.8% lowered the rent from the initial asking rent, and 4.6% raised the rent.
- More than 90% of office blocks with offer periods equivalent to the average office offer period (five months) or shorter found tenants without changing their asking rent.
- The longer the offer period becomes, the smaller the percentage of office blocks that did not change their initial asking rent before finding a tenant will be.

In the previous survey, we found that the average offer period of offices was five months. We also learned that offer periods were not affected by building specifics or timing. Then, what influences offices' offer periods?

The top elements that tenants placed importance on when choosing an office were "rent," "size," and "proximity from nearest station."<sup>\*2</sup> While "size" and "proximity to nearest station" are fixed for each property, "rent" can be decided by the offering party (lessor).

Xymax REI analyzed the impact the level of asking rent and its changes during the offer period have on the offer period using the office vacancy database Xymax REI independently gathered for the Tokyo 23 Wards. The data is aggregated in office block units, and the median value is used for calculating the offer period. For the asking rent, we investigated the difference between the asking rent at the start of offer and that at the end of the offer, and classified the rents into "unchanged," "lowered," and "raised."

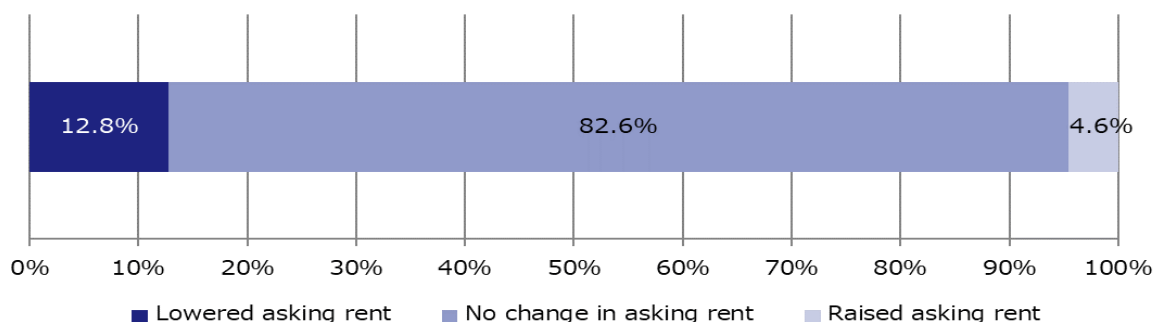
\*2 "Corporate Activity and Workstyle Reforms as Seen in Office Relocation," published on March 13, 2018

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## Analysis Results

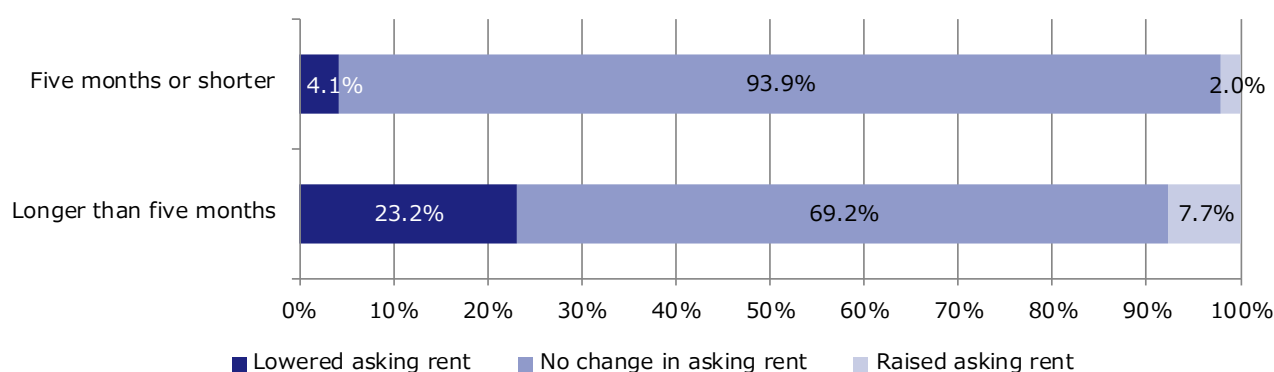
A survey of the change in asking rent of office blocks for which offers ended revealed that around 83% of total did not change the asking rent during the offer period. This means the asking rent that was put on the market was not changed, and a tenant was found with the initial asking rent. On the other hand, around 13% of the office blocks lowered their asking rent from the initial rent, while 5% raised it (**Figure 1**).

**Figure 1: Change in Asking Rent before Finding a Tenant**



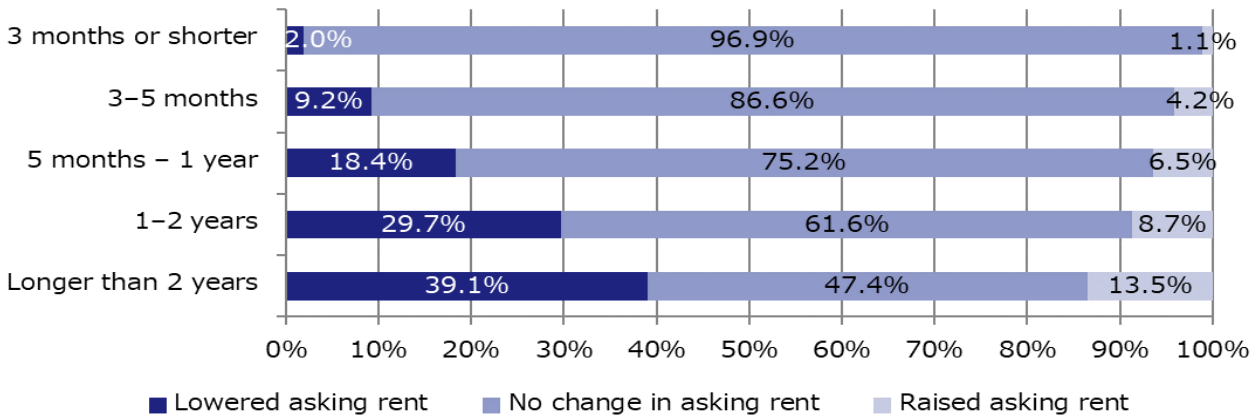
Does the change in asking rent differ depending on the length of the offer period? We examined the percentage of change in asking rent for office blocks with offer periods shorter than the average (five months) and for those with offer periods longer than average (**Figure 2**). More than 90% of office blocks with offer periods of five months or shorter found tenants without changing the asking rent. On the other hand, a little less than 70% of office blocks with offer periods longer than five months did not change their asking rent, indicating a relatively higher percentage of change in rent compared to that of office blocks with offer periods of five months or shorter.

**Figure 2: Change in Asking Rent by Offer Period (1)**



**Figure 3** shows the results for more segmented offer periods. The longer the offer period becomes, the smaller the percentage of office blocks that did not change their initial asking rent before finding a tenant will be. The percentage of office blocks that did not change the rent was less than 50% for offer periods longer than two years. For office blocks that changed the asking rent, the percentages of those that lowered the rent and that of those that raised it both increased, with a greater increase in office blocks that lowered the asking rent.

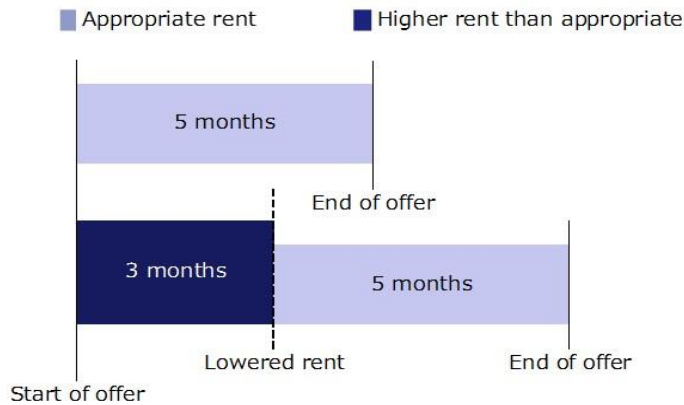
**Figure 3: Change in Asking Rent by Offer Period (2)**



**Observations**

The survey revealed that most office blocks that found a tenant relatively quickly (within five months) did not change their asking rent. This is probably because prospective tenants tended to see such office blocks as a candidate since the initial asking rents were appropriate, thus resulting in such offices being taken quickly. On the other hand, more than 20% of office blocks with offer periods longer than five months lowered their rent. Some of the office blocks that lowered their rent may have taken longer to find a tenant since their initial asking rent was too high (**Figure 4**).

**Figure 4: Rent Level and Offer Period (Image)**



When tenants search for offices, they investigate the market rent in the desired area, set a rough budget, and select candidates that fit within that budget. If the asking rent was higher than what was persuasive for the tenant, the block would not be considered as a candidate, resulting in a longer offer period. Failure to find a tenant for a certain amount of time is likely lead to more cases of lowering the asking rent. **Figure 3** shows that office blocks with longer offer periods had a higher percentage of lowering the asking rent. Of course, tenants may be found without lowering the rent. Since vacancy rates in neighboring areas and the needs of tenants looking for vacancies are diverse, it is not rare that tenants’ and lessors’ needs match due to timing.

The percentage of office blocks raising their asking rent increases as the offer period becomes longer. However, we believe the mechanism is different from lowering the rent. Although we cannot generalize due to individual circumstances, the mechanisms for raising the asking rent may include the following: a) When several office blocks were vacant in the same building, some office blocks found tenants at a higher rent than expected,

leading to a rise in asking rent of the remaining blocks; and b) lessors changing the asking rent without placing priority on finding a tenant quickly.

If we consider the office blocks that found tenants without changing the rent as blocks that had set an appropriate initial asking rent, it would be important to set an appropriate rent by grasping the market trend and developments in the neighboring areas on a daily basis in order to fill vacancies (i.e. shorten the offer period) quickly. To that end, indicators of asking rent and contract rent published regularly by research institutes and office brokerage firms would become useful.

For reference, this survey only covers vacancies that are on offer to the public and does not cover expansions within the same building. In the current environment with a vacancy rate below 3% and limited office stock, often tenants have already been decided before the vacancy is put on the market. Our periodic office demand survey<sup>\*3</sup> shows that around 40% of companies wishing to expand their office hope to expand within the same building. It would be important for office block owners to understand such needs of tenants in their effort to fill vacancies.

\*3 "Metropolitan Areas Office Demand Survey Spring 2018," published on July 3, 2018

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Combining such survey results with the results of Xymax REI's questionnaire surveys that focus on tenants' needs and its surveys on new supply will offer a multi-faceted insight into the supply and demand situation.

## Survey Overview

<b>Targets</b>	Blocks for office use in completed properties located in the 23 wards of Tokyo
<b>Aggregation Unit</b>	In office block units (3 tsubo – 2,000 tsubo) (1 tsubo = 3.3 sqm)
<b>Aggregation Period</b>	2012 – 2017
<b>Data Source</b>	Vacancy block data and property data independently gathered by Xymax
<b>Number of Data</b>	78,884 office blocks

The percentage mix in the charts contained in this report are rounded to the first decimal place and therefore may not add up to 100%.

## Contact for inquiries concerning this report

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