



SMAM

“Office Vacancy Rate in Japan (October 2014)”

Statistics of the “office vacancy rate” of Japan can be found in the website of Miki Shoji Company, a major office property agent in Japan, updated in the middle of every month. In addition to the “vacancy rate”, average rents and numbers of available office properties can be found. The data is classified into newly-completed and existing properties by each business district of six major cities, namely, Tokyo, Yokohama, Osaka, Nagoya, Sapporo and Fukuoka.

Point 1

Tokyo office vacancy rate declined, absorbing supply increase The office rent rose 4.4% from the recent bottom for ten consecutive months

- On November 7, the average office vacancy rate of Tokyo’s central five wards (Chiyoda, Chuo, Minato, Shinjuku, Shibuya) in October was released. The average vacancy rate was 5.60%, a decrease of 0.05 points m-o-m, improved for sixteen consecutive months. In October, two newly-completed buildings rolled out almost fully occupied. The demand for office space seems quite strong in central business district as its vacancy rate has been declining despite the increase in new office space supply.
- In addition, average office rent in the Tokyo’s central five wards in October rose 0.64% m-o-m for ten consecutive months to 16,913 yen (per tsubo*). It was a rise of 4.4% from its recent bottom marked in December 2013. While the average rent of newly-completed buildings were unchanged, the rent of existing buildings rose.

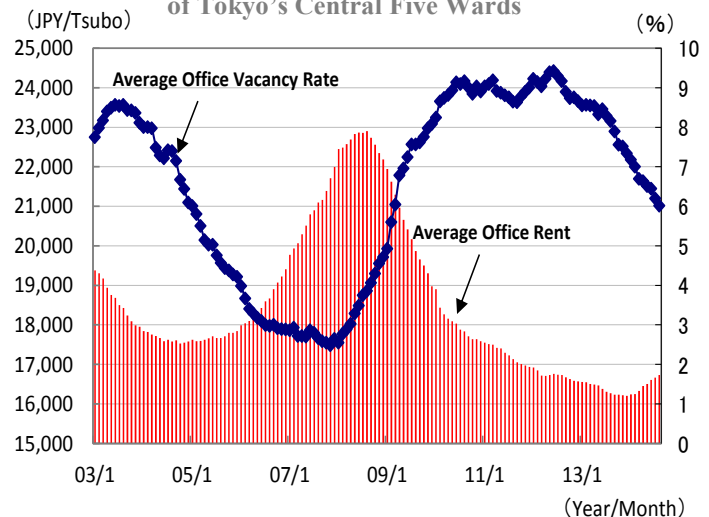
* Tsubo is a traditional Japanese measurement for unit area which is equal to 3.306 square meters.

Point 2

Office vacancy rate is continuously declining nationwide Supported by the Japanese corporates’ strong business performance

- The office vacancy rates in regional cities also keep improving. The vacancy rates of cities of Nagoya, Fukuoka and Yokohama improved by more than 0.2% points. Cities of Osaka, Sendai and Sapporo improved marginally. The vacancy rates in regional cities have been improving with their bottom between the latter half of 2010 and the first half of 2011.
- Strong corporate performance has been supporting the improvement in the office vacancy rate. According to Financial Statements Statistics of Corporations by industry, the recurring profits of all industries have kept increasing since 2010 and it expanded by about 1.9 times from FY2009 to FY2013. Supported by the corporate earnings’ recovery, office demand is increasing with the tail wind.

Average Office Vacancy Rate & Office Rent of Tokyo’s Central Five Wards



(Note) 1. Data from January 2003 to October 2014.
2. Monthly rent per one Tsubo.

(Source) SMAM, based on Miki Shoji Company and Datastream data.



J-REITs; attractive because of dividend increase expectation and BOJ's acceleration of purchasing pace

■ **Increase in the office rent is expected to continue**

Looking at the past trend of the office rents, we can find its cycle of reaching a peak from the previous bottom is four to five years. As only one year has passed since the recent bottom of 2013 year end, the office rents are well expected to maintain its upward trend.

■ **The BOJ decided to purchase J-REIT three times of the current amount**

On October 31, the Bank of Japan (BOJ) announced an additional monetary easing and decided to purchase JPY90billion worth of J-REIT every year which corresponds to three times of its current purchasing amount.

J-REITs are in favorable investment conditions because their dividends are expected to increase upon the office rent increase. (Compared to other countries, J-REITs have a feature of having higher weight of office sector REITs) Also, the additional purchase by the BOJ would be a supporting factor in the J-REIT market.

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