

Today's Topic **Japanese Office Vacancy Rate and Rent**

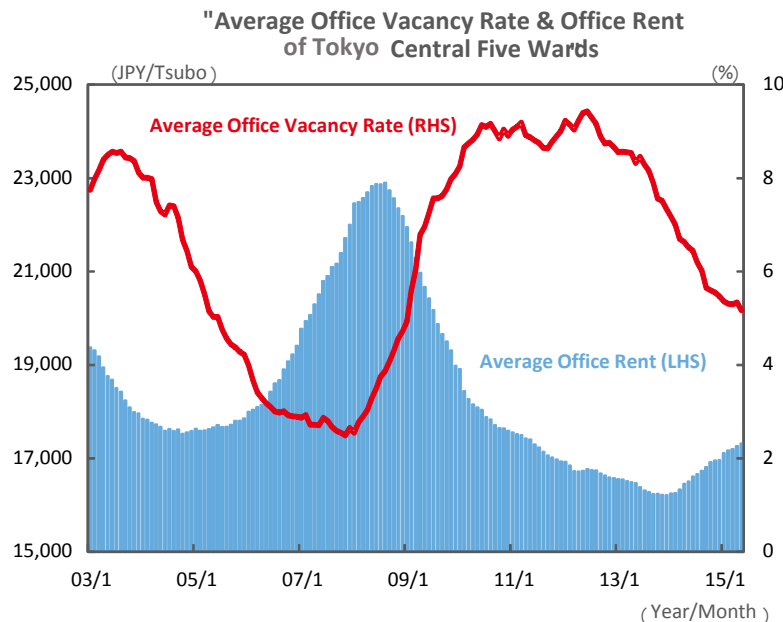
Central Tokyo - Improving office vacancy rate with rising office rent

Point 1 Central Tokyo office vacancy rate fell after a month respite

Office rent rose almost 7% from the recent bottom

- The average office vacancy rate of Tokyo central five wards (Chiyoda, Chuo, Minato, Shinjuku and Shibuya) was announced on June 12 by Miki Shoji Company, a major office property agent. May Vacancy rate fell (improved) 0.17ppt m-o-m to 5.17%. The rate in April rose (worsened) for the first time in a year and ten months because of a higher supply by new large-scaled buildings, however, it fell again on a higher demand for office spaces.
- Average office rent of Tokyo central five wards in May rose 0.37% m-o-m for consecutive seventeen months to 17,320 yen (per tsubo*). It was 6.9% rise from the recent bottom of December 2013.

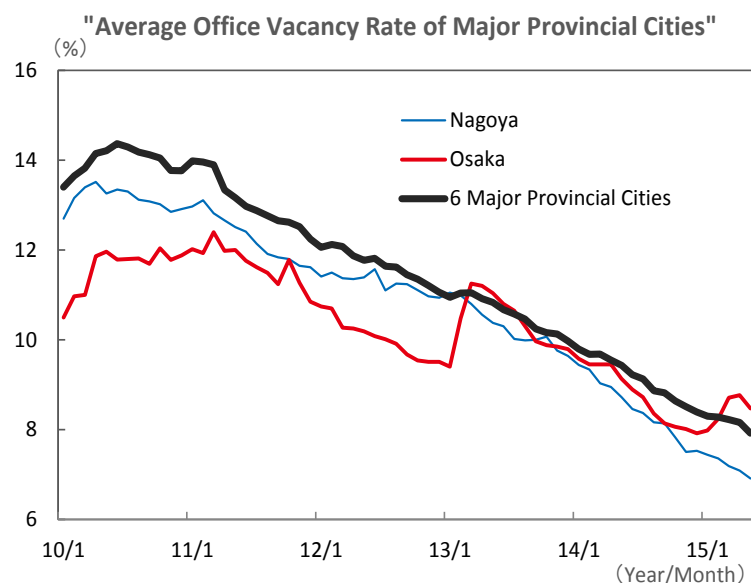
* Tsubo is a traditional Japanese measurement for unit area which is equal to 3.306 square meters.



Point 2 Office vacancy rate in provincial cities are also improving Supported by corporate earnings expansion

- Office vacancy rate in provincial cities are also improving. According to Miki Shoji Company, May Office vacancy rate in all major provincial cities (Sapporo, Sendai, Yokohama, Nagoya, Osaka and Fukuoka) improved from the previous month. The rate in Osaka has improved in May for the first time in five months after the city was hit by a new office supply in January 2015.
- Improving office vacancy rates in both central Tokyo and provincial cities are supported by corporate earnings expansion. FY2014 recurring profit of major 216 companies (excluding financials) (*) renewed record highs for the first time in seven years and expanded 2.2 times from the recorded bottom in FY2009 right after 2008 Financial Crisis.

* Companies mostly included in the research universe of SMAM.



Future Outlook

Average office rent is expected to continue rising

- The change of office rent lags by one to two years to office vacancy rate movement, and the market cycle from a bottom to a peak is around four years. In the current cycle, only about a year and a half have passed since the bottom at around the end of 2013. Office rents are expected to continue moving higher with improving office vacancy rates supported by upbeat economic sentiment.
- Tokyo Stock Exchange REIT index (TSE REIT index, hereafter) is subdued these days as government bond yields rose globally. TSE REIT index is expected to move higher once government bond yields stabilise, as upbeat office leasing market is likely to continue.

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