

## “Office Vacancy Rate” declined for 2 straight months

The “Office Vacancy Rate” is posted on the web site of Miki Shoji, a major property agent in Japan, and is released around the middle of every month. The report shows useful data, such as vacancy rates, average rent prices and the numbers of office buildings. The data are categorized by location (Sapporo, Sendai, Tokyo, Yokohama, Nagoya, Osaka and Fukuoka), and divided into two groups of newly built and existing buildings).

### Point 1

## Vacancy rates in Tokyo’s five central Wards have declined to 4.05% in May

The rate is below half of its peak in 2012

- Office Vacancy Rates in May were published on 9<sup>th</sup> June. The vacancy rates in Tokyo’s five central Wards (Chiyoda, Chuo, Minato, Shinjuku and Shibuya) declined by 0.18 points MoM to 4.05%. The rate has decreased for two straight months and fell to the level that is less than half of its peak in June 2012 (9.43%).
- Although Office Vacancy Rate continued to rise in February and March due to a series of new building openings after it declined to 4.01% in January this year, the Rate seems to have returned to its declining trajectory as office space demand are expanding supported by strong corporate performance.

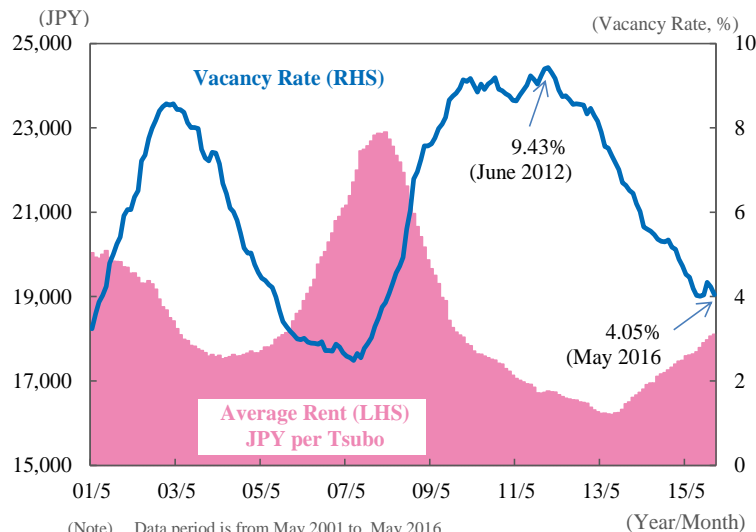
### Point 2

## Office rent rose steadily Vacancy is scarce in popular office districts

- Office rent continued to rise reflecting tight supply-demand balance. The average office rent of May was JPY 18,107 per Tsubo\* (=JPY 5,477 per Square Meter) which rose +4.5% YoY and +0.3% MoM.
- In May, some large-scaled buildings opened fully occupied and also existing buildings had new leasing in order to increase office space due to corporate integration. Vacancy is scarce in popular office districts due to tight supply-demand balance as Office Vacancy Rate of existing buildings in May was 3.66%.

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

“Vacancy Rate and Rent of Tokyo's five central Wards”



(Note) Data period is from May 2001 to May 2016.

(Source) SMAM, based on Miki Shoji Co., Ltd. data.

### ■ Vacancy rate below 5% triggers the office rent to rise

Once the vacancy rate falls below 5%, rents tend to start rising as the office rent market turns to a so called “sellers’ market”. Office rent is expected to continue rising due to the limited supply of new office space. Rents are rising not only in Tokyo but also in Osaka, Nagoya and other major cities in Japan.

### ■ Outstanding performance of TSE REIT Index

For the Japanese REIT market, rise of office rent is a tailwind, since many of them are focused on office buildings. The TSE REIT Index rose 7.0% from the previous year end (based on the closing price as of 13<sup>th</sup> June 2016), in contrast to that of Nikkei 225 index which has dropped 15.8% over the same period.

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