

“Office Vacancy Rate”, improved to 3% level in July

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 seven business locations (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 improved to 3% level of 3.94% in July, for the first time in almost 8 years

Tight supply situation of office building is continuing

- Office Vacancy Rates in July were published on 10th August. The vacancy rates in Tokyo’s five central Wards (Chiyoda, Chuo, Minato, Shinjuku and Shibuya) improved by 0.13 points MoM to 3% level of 3.94% for the first time in almost 8 years. The rate is less than half of its peak in June 2012 (9.43%).
- Background of office vacancy rate decline in July was due to limited opening of a newly developed office buildings and some closure of large-scaled leasing contracts in some new and existing buildings. Tight supply situation of office building is continuing.

Point 2

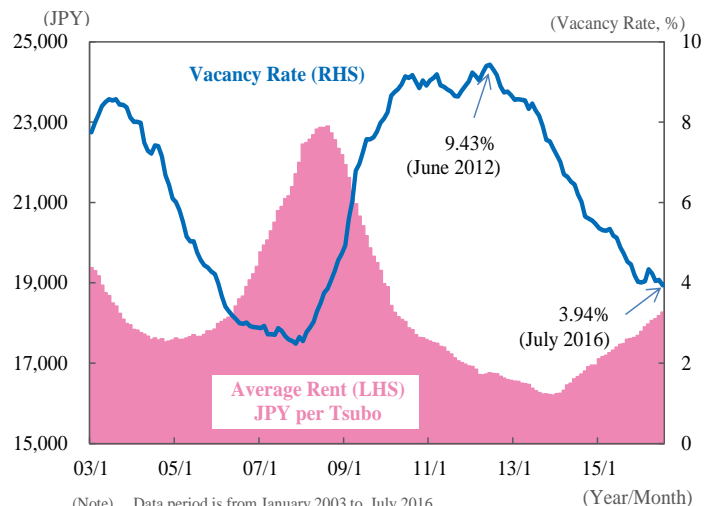
Office rent continued to rise for 31 consecutive months

Vacancy is scarce in popular office districts

- Office rent continued to rise reflecting tight supply-demand balance. The average office rent of Tokyo’s five central Wards in July was JPY 18,271 per Tsubo* (=JPY 5,527 per Square Meter) which rose +4.6% YoY and +0.5% MoM.
- The office rent continued to rise for 31 consecutive months. Vacancy continues to be scarce in popular office districts due to tight supply-demand as Office Vacancy Rate of existing buildings alone in Tokyo’s five central Wards in July was 3.61%.

* 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 January 2003 to July 2016.
(Source) SMAM, based on Miki Shoji Co., Ltd. data.

Tailwind for Japanese REIT market, lower interest rate is also positive

■ Rise of office rent is expected going forward

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. Favorable environment of office leasing market is continuing as trajectory of falling vacancy rate persists not only in Tokyo but also in Osaka, Nagoya and other major cities in Japan.

■ Outstanding performance of REIT compared to that of equity

For the Japanese REIT market, rise of office rent in accordance with progress of monetary easing is a tailwind, since many of them are focused on office buildings. The TSE REIT Index rose 5.0% from the previous year end (based on the closing price as of 9th August 2016), in contrast to that of Nikkei 225 index which has dropped 11.9% over the same period.

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