

“Office Vacancy Rate”, improved after temporal stagnation

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.

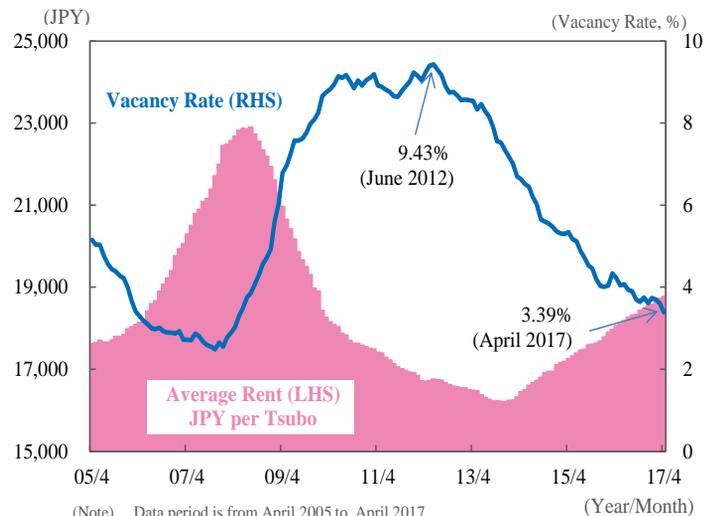
Point 1

Vacancy rates in Tokyo’s five central wards has improved to 3.39% in April 2017

Closing of large-scaled contract due to consolidation of scattered office space of existing building contributed to overall improvement

- “Office Vacancy Rates” in April were published on 11th May 2017 by Miki Shoji. The vacancy rates in Tokyo’s five central wards (Chiyoda, Chūō, Minato, Shinjuku and Shibuya) improved by -0.21 points MoM to 3.39% in April. The vacancy rate which had been staying in between 3.6% and 3.7% since September 2016 improved further in April. Particularly, “Office Vacancy Rates” of Shibuya ward and Shinjuku ward were extremely good at the first half of 2% level.
- In April, closing of large-scaled contract due to consolidation of scattered office space of existing building contributed to overall improvement of office vacancy rate despite launch of newly built buildings which was not fully occupied.

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



(Note) Data period is from April 2005 to April 2017.
(Source) SMAM, based on Miki Shoji Co., Ltd. data.

Point 2

Average office rent rose for 40 consecutive months

Moderate rise of office rent continues

- Meanwhile, the average office rent of Tokyo’s five central wards in April was JPY 18,774 per Tsubo* (=JPY 5,679 per Square Meter) which rose +3.95% YoY and marginally rose by +0.23% MoM for 40 consecutive months.
- In April, average office rent of newly built buildings of Tokyo’s five central wards fell sharply by -5.54% YoY much more than the fall in the previous month. It has fallen for 2 consecutive months. “Office Vacancy Rate” of newly built building seems to be weighing on office rent, as the rate has been rising since recent bottom of September last year. On the other hand, average office rent of existing building is moderately rising with + 0.44% MoM in April.

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

- Office tenants are expected to become selective beyond year 2018, as large supply of new office buildings is in the pipeline until year 2020. However, vacancy rate is expected to stay low for some time due to limited supply of large-scaled building in 2017.
- Decrease in vacancy rate and increase in rent of offices are tailwinds to Japanese REIT market as many of Japanese REITs are specialized in office buildings. Furthermore, long-term interest rate seems to stay low as BOJ’s stance to go on accommodative monetary policy is likely to continue in Japan for the time being which is positive to Japanese REIT market.

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