

“Office Vacancy Rate”, improved further in August

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 further to 3.90% in August

Tight supply situation of office building is continuing

- Office Vacancy Rates in August were published on 8th September. The vacancy rates in Tokyo’s five central Wards (Chiyoda, Chūō, Minato, Shinjuku and Shibuya) improved by -0.04 points MoM to 3.90%. The rate is less than half of its peak in June 2012 (9.43%).
- Background of office vacancy rate decline in August was due to some closure of large-scaled leasing contracts in relatively new buildings offsetting a large-scaled cancellation of leasing contract of newly developed office buildings due to relocation of tenants. Tight supply situation of office buildings is continuing.

Point 2

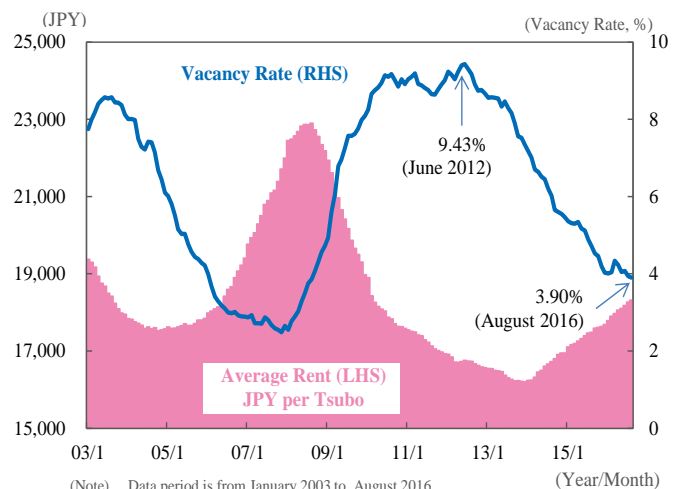
Office rent continued to rise for 32 consecutive months

Vacancy is scarce in popular office districts

- Office rent continues to rise reflecting tight supply-demand balance. The average office rent of Tokyo’s five central Wards in August was JPY 18,322 per Tsubo* (=JPY 5,542 per Square Meter) which rose +4.8% YoY and +0.3% MoM.
- The office rent continued to rise for 32 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 August was 3.55%.

* 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 August 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 along with low interest rates as trajectory of falling vacancy rate persists not only in Tokyo but also in Yokohama, Sapporo, Osaka, Fukuoka 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 +3.9% from the previous year end (based on the closing price as of 15th September 2016), in contrast to that of Nikkei 225 index which has dropped -13.8% over the same period.

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