

## “Office Vacancy Rate”, rose in June

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 rose to 4.07% in June for the first time in 3 months

**Background was a special factor of a large IT company’s office relocation, however, tight supply situation is unchanged**

- Office Vacancy Rates in June were published on 7<sup>th</sup> July. The vacancy rates in Tokyo’s five central Wards (Chiyoda, Chuo, Minato, Shinjuku and Shibuya) rose by 0.02 points MoM to 4.07% for the first time in 3 months. However, the rate is still less than half of its peak in June 2012 (9.43%).
- Background of office vacancy rate hike in June seemed to be caused by special factors such as cancelation of office rent contract by a large IT company due to their head office relocation and opening of a new office building. However, structural tight supply situation seems to have not changed.

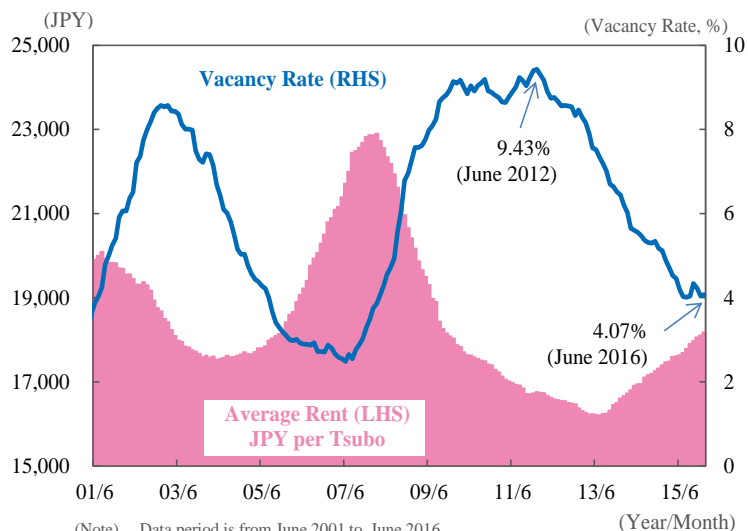
### Point 2

## Office rent continued to rise for 30 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 June was JPY 18,179 per Tsubo\* (=JPY 5,499 per Square Meter) which rose +4.5% YoY and +0.4% MoM.
- The office rent continued to rise for 30 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 June was 3.67%.

\* 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 June 2001 to June 2016.  
(Source) SMAM, based on Miki Shoji Co., Ltd. data.

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

### ■ 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. 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 TSE REIT Index

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 5.6% from the previous year end (based on the closing price as of 7<sup>th</sup> July 2016), in contrast to that of Nikkei 225 index which has dropped 19.7% over the same period.

### ■ Disclaimer

#### Please read this disclaimer carefully.

- This material is for non-Japanese institutional investors only.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter “SMAM”), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM’s judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM’s authorization, or from disclosing this material to a third party.

Registered Number: Kanto Local Finance Bureau (KINSHO) No.399

Member of Japan Investment Advisers Association, The Investment Trusts Association, Japan and

Type II Financial Instruments Firms Association

© Sumitomo Mitsui Asset Management Company, Limited

