

“Office Vacancy Rate” starts to improve again

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

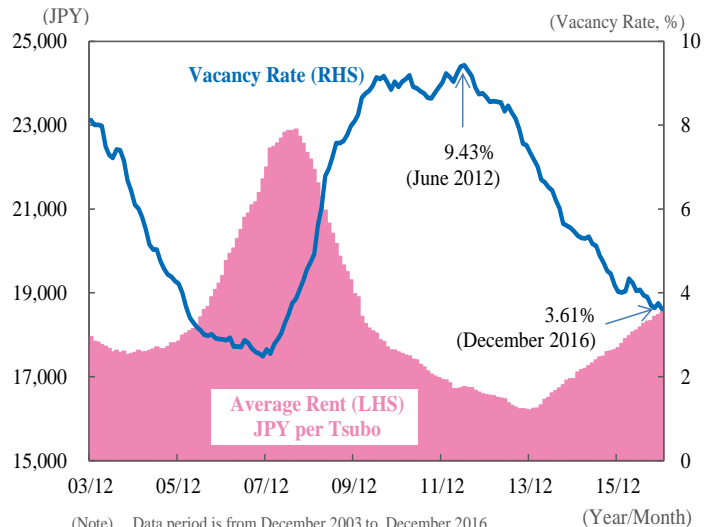
Vacancy rates in Tokyo’s five central wards has improved down to 3.61% in December 2016

Office rent rose in all five wards by + 0.35% MoM on aggregate, for 36 consecutive months

- Office Vacancy Rates in December were published on 12th January 2017. The vacancy rates in Tokyo’s five central wards (Chiyoda, Chūō, Minato, Shinjuku and Shibuya) improved by -0.14 points MoM to 3.61% in December. In November, the rate slightly rose from the previous month, however, it once again fell in December and revised its record low since year 2008.
- Meanwhile, the average office rent of Tokyo’s five central wards in December was JPY 18,540 per Tsubo* (=JPY 5,608 per Square Meter) which rose +4.79% YoY and +0.35% MoM for 36 consecutive months. In December, all of Tokyo’s five central wards’ average office rent rose from the previous month.

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

Point 2

Full occupancy rate of offices is increasing

Tightening of vacant office stocks is getting serious

- This time, Miki Shoji announced occupancy rate of Tokyo’s five central wards’ major buildings for rent (2,586 blocks). According to this announcement, 72.74% of buildings were fully occupied which was +2.48 point higher than the previous year as of December 2016. Meanwhile, vacancy area has been decreasing since 2012, however, rate of decline became smaller compared to the past in December 2016.
- Tightening of vacant office stocks is getting serious as cancellation of office rent contract of large-scaled offices is getting less in Tokyo’s five central wards.

2017 will see continuous increase in office rent as new supply of office space will decrease

- We expect sense of shortage of large-scaled office space to further strengthen as supply of new office buildings is likely to decrease in 2017 along with current low level of vacancy rate. Meanwhile, average office rent is expected to moderately increase going forward, despite partial delay in raise of rent as tenants remain cost conscious.
- 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, while US interest rate was hiked last month and is expected to increase going forward, BOJ's stance to go on accommodative monetary policy is positive to Japanese REIT market.

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