

-4.67%

Rental Growth, YoY

YoY
Chg

12-Mo.
Forecast



6.88%

Vacancy Rate



-1.05%

Absorption, QoQ



Source: Cushman & Wakefield

JAPAN ECONOMIC INDICATORS Q1 2021

-3.9%

Real GDP Growth

YoY
Chg

12-Mo.
Forecast



-0.1%

Core CPI Growth



2.6%

Unemployment



Source: Cabinet Office, Statistics Bureau. GDP Growth is annualized, based on the real seasonally-adjusted quarterly figure. Core CPI is YoY figure, seasonally-adjusted.

Economic Recovery Held Back by Repeated States of Emergency

Japan's GDP growth returned to negative territory for January to March, dropping to an annualized -3.9% q-o-q, with the suspension of the Go To domestic travel campaign and weaker consumption from a COVID-19 emergency declaration impacting performance. Tokyo has now endured a state of emergency every month in 2021: January 8 to March 21 in Q1, April 25 to June 20 in Q2, and now the current July 12 to August 31 period. Business bankruptcies are rising, especially in face-to-face industries such as F&B, hospitality, and food wholesalers. However, shopper traffic has remained quite resilient and retail sales are partially recovering. The outlook for face-to-face services will brighten if the government's vaccination program picks up and the October / November target is realized, with services then set for a gradual recovery into 2022. As well, despite weakened consumption, exports are strong on the back of the recovery of overseas economies, and capital investment continues to recover.

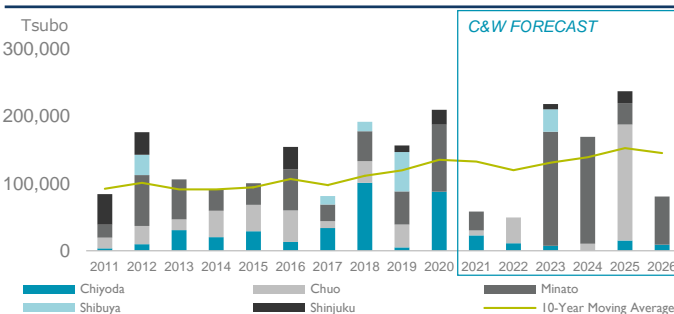
Vacancy Rate at 7.5 Year High

Average Grade A office achievable rent in Q2 was at JPY36,773, down 4.67% y-o-y. The Tokyo Torch Tokiwabashi Tower project in Chiyoda Ward and Hibiya Fort Tower in Minato Ward launched in the quarter, achieving occupancy rates of 87% and 84%, respectively. However, although overall market leasing demand was strong, the trend of tenant downsizing continued. In Shibuya Ward, the relocation of DeNA and KDDI had a negative impact, sending the vacancy rate (actual and scheduled vacant space) to 7.05%, the steepest q-o-q rise among the central five wards by 3.44 pp. Minato Ward, with continuing new supply, saw the highest vacancy rate at 10.18%, while in Shinjuku Ward, vacancy grew to 9.7% compared to a pre-pandemic below 1% level. The weighted average vacancy rate in central five wards reached 6.88%, the highest level in seven and a half years.

Vacancy Edges Up with Increasing Downsizing Relocations

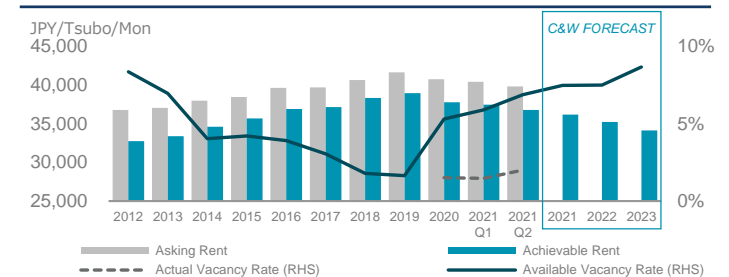
Leasing activity has continued to recover this year, but most relocations have been for downsizing. Hybrid work styles are expanding, and more firms are reducing floor space by introducing activity-based working. Original office space is shrinking, but the share of flexible office space is growing, and we expect this trend to continue. Building owners are certainly concerned about a collapse in rental levels, as in past recessions, and are now demonstrating more flexibility earlier in the leasing process, and this environment of undervaluation of higher-grade office space is helping a recovery in leasing demand. While new supply remains low this year and into 2022, vacancy rates will continue to rise slightly, with scant evidence of new office demand growth. In contrast, an influx of new supply is scheduled to enter the central five wards over three years starting in 2023.

New Supply (Tokyo 5 Wards)



Source: Cushman & Wakefield

Rent & Vacancy Rate (Tokyo 5 Wards)



The definition of Grade A office rent since 2012 and vacancy rate since 2020 have been changed as follows: 5 central wards of Tokyo; completed after 2000; rental floor area of 6,000 tsubo or more; standard floor area of 500 tsubo or more.
Source: Cushman & Wakefield

MARKET	VACANCY RATE	ABSORPTION RATE	STOCK (RENTABLE)		ABSORBED AREA (RENTABLE)		GRADE A ACHIEVABLE RENT		
			TSUBO	SF	TSUBO	SF	JPY/TS/MO	USD/SF/MO	EUR/SF/MO
TOKYO CBD GRADE A TOTAL	6.88%	-1.05%	2,051,959	73,015,468	-20,314	-722,853	36,773	9.35	7.85

USD/JPY = 110.58 EUR/JPY = 131.58

MAJOR TENANT RELOCATION

TENANT	EXPECTED RELOCATION TIMING	INTO		FROM		EXPECTED OCCUPIED SPACE	
		BUILDING	SUBMARKET	BUILDING	SUBMARKET	TSUBO	SF
Tokio Marine HD, Tokio Marine & Nichido Fire Insurance, Tokio Marine Anshin Life Insurance	December 2021 - June 2022	TOKYO TORCH Tokiwabashi Tower	Marunouchi	Own Property	Marunouchi	10,140	360,815
Orix	May - July 2021	World Trade Center Bldg South Tower	Mita / Shibaura	World Trade Center Bldg, Hamamatsucho Bldg	Mita / Shibaura	6,580	234,138
kuraray	Jul 2021	TOKYO TORCH Tokiwabashi Tower	Marunouchi / Otemachi	Ote Center Bldg	Marunouchi / Otemachi	3,600	128,100
IMAGICA GROUP, IMAGICA Entertainment Media services	October - November 2021	The Takeshiba ReDev	Mita / Shibaura	Own Property, Uchisaiwaicho Tokyu Bldg	Gptanda, Uchisaiwaicho	3,007	106,999

Source: Nikkei Real Estate Market Report

MAJOR SPACE REDUCTION AND CANCELATION OF RELOCATION

TENANT	EXPECTED RELOCATION TIMING	BUILDING	SUBMARKET	EXPECTED REDUCED SPACE	
				坪	SF
Yahoo	Reduced	Kioi Tower, AKASAKA K-TOWER	Akasaka	-7,800	-277,550
KDDI	Reduced	Shinjuku Bunka Quint Bldg, Sumitomo Fudosan Iidabashi Ekimae Bldg, TERRACE SQUARE	Yoyogi/Iidabashi/Kanda	-4,000	-142,333
Deloitte Tohmatsu Group	Reduced	Marunouchi Nijubashi Bldg	Marunouchi / Otemachi	-1,800	-64,050
AXA GENERAL INSURANCE, AXA DIRECT LIFE INSURANCE	Reduced	KDX Kojimachi Bldg, Kojimachi Silk Bldg, Kairaku Bldg, Tawaramachi City Bldg, Kuramae Sakai Bldg	Kojimachi, Tawaramachi, Kuramae	-850	-30,246
Calbee	Reduced	Marunouchi Trust Tower Main	Marunouchi / Otemachi	-627	-22,311
NTT Advanced Tecnology Corporation	Reduced	Muza Kawasaki Central Tower	Kawasaki	-605	-21,528

Source: Nikkei Real Estate Market Report

MAJOR GRADE A OFFICE SUPPLY 2021

STATUS	PROPERTY	SUBMARKET	WARD	EST. GROSS FLOOR SPACE (INC. NON-OFFICE)		COMPLETION (Inc. Expected)
				TSUBO	SF	
Completed	TOKYO TORCH Tokiwabashi Tower	Marunouchi / Otemachi	Chiyoda	44,165	1,571,536	Jun
	Hibiya FORT TOWER	Kasumigaseki / Uchisaiwaicho	Minato	31,936	1,136,374	Jun
Under Construction	KABUTO ONE	Nihonbashi	Chuo	11,849	421,627	Aug

Source: Cushman & Wakefield

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