

## MARKETBEATS

**3.32%**RENTAL GROWTH,  
YOY**2.07%**

VACANCY RATE

**-0.07%**

ABSORPTION, QOQ

WHAT'S  
NEXT

## HIGHLIGHTS

**Economy expands despite declining trade**

Despite a decline in exports and imports, the Japanese economy managed to sustain positive growth at 2.2% annualized in the first quarter of 2019. The Core Consumer Price Index rose 0.8% Y-o-Y, 10 bps up from the previous quarter, as the 1% rate remained a key resistance level. The Bank of Japan maintained its target for the CPI at 2%, according to its "Outlook for Economic Activity and Prices", due to expectations of gradual increases over the medium to long term. However, some of the central bank's committee members see further downside risks in prices.

**Net absorption contracts first time in 33 months**

In the second quarter of 2019, vacancy in Tokyo's central five wards continued to increase, marginally rising to 2.07% while asking rent decreased by 1.5%. This is largely due to associated secondary vacancies rising due to the influx of new office supply. Despite the supply surge, net absorption contracted by 0.07%, the first time since the third quarter of 2016, or 33 months.

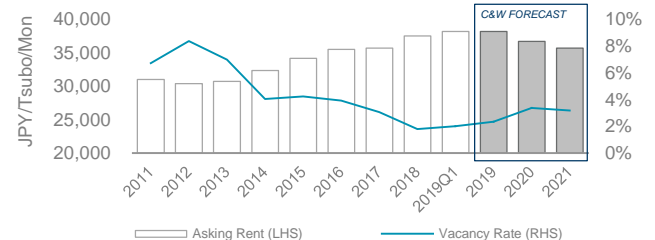
**Rent to level off after a slight dip in 2020**

Asking rent during this period dipped marginally due to increased pending vacancies; rentals are expected to be maintained at this level for the rest of the year. While increases in supply will exert upward pressure on vacancy rate towards 2020, tenancy demand is anticipated to remain firm. Therefore, rents are expected to level off after softening slightly due to secondary vacancies in 2020.

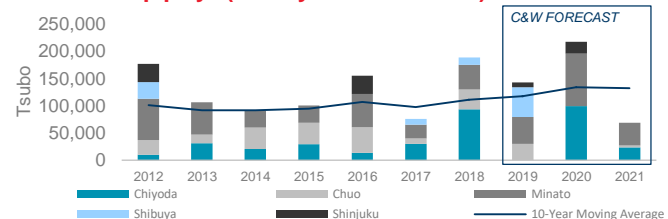
**Economic Indicators (Japan)**

|                                 | Q4 18 | Q1 19 | 12 Months Forecast |
|---------------------------------|-------|-------|--------------------|
| Real GDP Growth                 | 1.8%  | 2.2%  | —                  |
| Core Consumer Price Index (CPI) | 0.7%  | 0.8%  | —                  |
| Unemployment Rate               | 2.4%  | 2.5%  | —                  |

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

**Asking Rent & Vacancy Rate (Tokyo 5 Wards)**

Source: Cushman & Wakefield. Each figure shows year-end figure unless specified. Grade A Office: buildings with gross floor space of above 30,000 square meters, located in the CBD 5 wards of Tokyo.

**New Supply (Tokyo 5 Wards)**

Source: Cushman & Wakefield

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| MARKET                  | VACANCY RATE | ABSORPTION RATE | STOCK (RENTABLE) |             | ABSORBED AREA (RENTABLE) |         | GRADE A ASKING RENT |           |           |
|-------------------------|--------------|-----------------|------------------|-------------|--------------------------|---------|---------------------|-----------|-----------|
|                         |              |                 | TSUBO            | SF          | TSUBO                    | SF      | JPY/TS/MO           | USD/SF/MO | EUR/SF/MO |
| TOKYO CBD GRADE A TOTAL | 2.07%        | -0.07%          | 3,326,119        | 118,354,290 | -2,328                   | -82,848 | 37,527              | 9.77      | 8.59      |

USD/JPY = 107.93 EUR/JPY = 122.71

## Major Tenant Relocation to Grade A Office

| TENANT  | EXPECTED RELOCATION TIMING | INTO                                    |            | FROM                                |                      | EXPECTED OCCUPIED SPACE |         |
|---|----------------------------|---|------------|-------------------------------------|----------------------|-------------------------|---------|
|   |                            | BUILDING                                | SUBMARKET  | BUILDING                            | SUBMARKET            | TSUBO                   | SF      |
| Takamatsu Construction Group, Takamatsu Construction, Asunaro Aoki Construction, etc. | July 2019 or earlier       | Sumitomo Shoji Mitoshiro Building       | Kanda      | TCG Building                        | Shiba                | 2,700                   | 96,075  |
| Daiko Advertising   | October 2019               | Orix Shiba 2-Chome Building             | Shiba      | Akasaka Park Building               | Akasaka              | 19,555                  | 695,831 |
| Fuyo General Lease  | May 2020 or later          | Sumitomo Fudosan Kojimachi Garden Tower | Kojimachi  | Multiple Locations                  | Multiple locations   | 3,700                   | 131,658 |
| JX Nippon Mining & Metals   | June 2020                  | Okura Prestige Tower                    | Toranomon  | Otemon Tower / JX Building          | Otemachi             | 2,754                   | 97,996  |
| Facebook Japan  | Latter half of 2020        | Toranomon Hills Business Tower          | Toranomon  | Ark Hills Sengokuyama Mori Tower    | Roppongi             | 2,400                   | 85,400  |
| salesforce.com  | Latter half of 2021        | Nihon Seimei Marunouchi Garden Tower    | Marunouchi | JP Tower, Midtown Tower             | Marunouchi / Akasaka | 9,600                   | 341,600 |
| ITOCHU  | Unknown                    | Kamiyacho Trust Tower                   | Toranomon  | Company-owned building              | Aoyama               | 20,000                  | 711,666 |
| Hitachi High-Technologies   | Unknown                    | Toranomon Hills Business Tower          | Toranomon  | Unknown                             | Unknown              | 5,400                   | 192,150 |
| American Express International  | Unknown                    | Kamiyacho Trust Tower                   | Toranomon  | Fujisawa Building                   | Ogikubo, Suginami-ku | 4,000                   | 142,333 |
| H.I.S.  | Unknown                    | Kamiyacho Trust Tower                   | Toranomon  | Sumitomo Fudosan Shinjuku Oak Tower | Shinjuku             | 2,320                   | 82,553  |

Source: Nikkei Real Estate Market Report

## Major Grade A Office Supply 2019

| STATUS             | PROPERTY                                     | SUBMARKET         | WARD     | EST. GROSS FLOOR SPACE (INC. NON-OFFICE) |           | COMPLETION      |
|--------------------|--|-------------------|----------|--|-----------|-----------------|
|                    |  |                   |          | TSUBO                                    | SF        | (Inc. Expected) |
| Completed          | Shinagawa HEART                              | Shinagawa (Konan) | Minato   | 11,074                                   | 394,049   | February        |
|                    | Abema Towers                                 | Shibuya           | Shibuya  | 11,480                                   | 408,496   | February        |
|                    | Nihonbashi-Muromachi Mitsui Tower            | Nihonbashi        | Chuo     | 50,820                                   | 1,808,343 | March           |
|                    | SHIBUYA SOLASTA                              | Shibuya           | Shibuya  | 14,203                                   | 505,390   | March           |
| Under Construction | Okura Prestige Tower                         | Toranomon         | Minato   | 54,479                                   | 1,938,543 | July            |
|                    | Urbannet Uchisaiwaicho Building              | Shinbashi         | Minato   | 10,920                                   | 388,570   | July            |
|                    | Museum Tower Kyobashi                        | Kyobashi          | Chuo     | 12,656                                   | 450,342   | July            |
|                    | Sumitomo Fudosan Shinjuku Central Park Tower | Nishi-Shinjuku    | Shinjuku | 18,760                                   | 667,543   | August          |
|                    | Shinjuku Minamiguchi Project                 | Shinjuku          | Shibuya  | 13,007                                   | 462,832   | August          |
|                    | SHIBUYA FUKURAS                              | Shibuya           | Shibuya  | 17,847                                   | 635,055   | October         |
|                    | Shibuya Scramble Square East Tower           | Shibuya           | Shibuya  | 54,752                                   | 1,948,257 | October         |
|                    | Shibuya Parco Rebuilt Project                | Shibuya           | Shibuya  | 19,360                                   | 688,893   | October         |
|                    | Toranomon Hills Business Tower               | Toranomon         | Minato   | 52,332                                   | 1,862,145 | December        |

Source: Nikkei Real Estate Market Report

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Research Publication

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