



0.69%

Rental Growth, YoY

YoY
Chg12-Mo.
Forecast

1.56%

Vacancy Rate



2.94%

Absorption, QoQ

JAPAN ECONOMIC INDICATORS
Q4 2019

-7.1%

Real GDP Growth

YoY
Chg12-Mo.
Forecast

0.7%

Core CPI Growth



2.2%

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

Economy Set for Second Consecutive Quarter of Negative Growth

Japan's GDP growth dropped annualized 7.1% (q-o-q, second preliminary data) in Q4 2019, hit by a post-tax hike slump in consumer demand and the effects of U.S.-China trade friction on the global economy. In Q1 2020 the economy was impacted by the COVID-19 outbreak. China's ban on overseas group travel on January 27 and Japanese government posed own restrictions on China and South Korea visitors on March 5. Inbound visitor numbers plunged 58.3% y-o-y in February and 93.0% in March. Government pandemic containment measures escalated from halting events, through suspending national construction operations, to regional and national states of emergency by April 16. With the exception of supermarkets, which saw an uptick in business due to stockpiling, dismal performance in tourism and service industries and depressed domestic demand now point to a second consecutive quarter of negative growth.

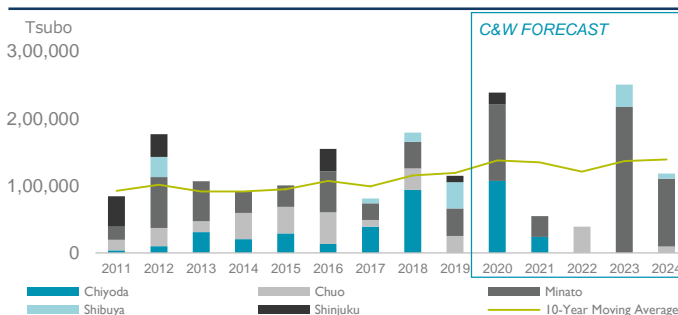
Office Market Stayed Strong in Q1 2020

Asking rent for Grade A office space in Q1 2020 was JPY38,368, up 0.69% y-o-y. The vacancy rate was at 1.56%, down 0.44pt y-o-y. New office supply from 2018 to 2020 has been plentiful but net absorption still grew by 2.94% q-o-q and 5.23% y-o-y, indicating sustained market strength. However, economic pressures from the COVID-19 crisis are now crimping demand, with trimmed relocation budgets and postponed business expansions coupled with the rise of remote working. Despite this, the landlord-favorable market of recent years has not yet entered a rent-reduction phase. In contrast to prior recessions, the financial system has not been severely disrupted and we do not expect the drastic rental declines as seen in the GFC. Notwithstanding, if the economic pressures continue longer-term and the government fails to enact funding measures then unemployment rates and bankruptcy numbers will undoubtedly rise, posing a serious challenge to the office market.

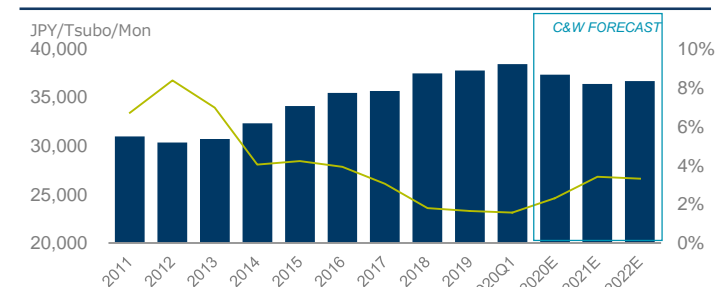
New Office Supply Set for Record High but Retail and Mix Zones Postpone Openings

New Grade A office supply is expected to reach a record high in 2020, concentrated in Chiyoda Ward and Minato Ward. However, with strong pre-leasing commitments, most new projects are expected to reach full occupation upon completion. While six of 11 Grade A projects were completed in Q1, most have delayed opening their retail or mix zones due to the COVID-19 situation. There are no current reports of upcoming Grade A office supply postponements, but this may change due to material shortages. Steel production was largely shut down during the COVID-19 crisis and this may lead to a vicious circle of material shortages causing construction project cancellations, further reduction in steel production and consequent project completion delays.

New Supply (Tokyo 5 Wards)



Asking Rent & Vacancy Rate (Tokyo 5 Wards)



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	1.56%	2.94%	3,484,426	123,987,376	97,869	3,482,509	38,368	9.91	9.02

USD/JPY = 108.83 EUR/JPY = 119.55

MAJOR TENANT RELOCATION TO GRADE A OFFICE

TENANT	EXPECTED RELOCATION TIMING	INTO		FROM		EXPECTED OCCUPIED SPACE	
		BUILDING	SUBMARKET	BUILDING	SUBMARKET	TSUBO	SF
Idemitsu Kosan	Fiscal 2020	Otemachi One Tower	Marunouchi / Otemachi	-	-	5600-6800	199,266-241,966
TIS, INTEC	Fiscal 2021	Toyosu 2-chome Station Front District Redevelopment Block 2-1 Tower AC	Toyosu	Sumitomo Fudosan Shinjuku Grand Tower, Company-owned building	Nishi-Shinjuku / Koto	10,000	355,833
Dell, EMC Japan	August 2021 to January 2022	Otemachi One Tower	Marunouchi / Otemachi	Solid Square East Tower, Shinjuku Mines Tower	Kawasaki / Yoyogi	7,800	277,550
Suntory Group	Spring 2021	msb Tamachi Station Tower N	Shibaura	Tokyo Square Garden, Company-owned building	Kyobashi / Daiba	7,000	249,083
Isuzu Motors	May 2022	Yokohama Gate Tower	Minatomirai	Omori Bellport Tower A	Shinagawa	2,990	106,394

Source: Nikkei Real Estate Market Report

MAJOR GRADE A OFFICE SUPPLY 2019

STATUS	PROPERTY	SUBMARKET	WARD	EST. GROSS FLOOR SPACE (INC. NON-OFFICE)		COMPLETION (Inc. Expected)
				TSUBO	SF	
Completed	Toranomon Hills Business Tower	Toranomon / Kamiyacho	Minato	52,333	1,862,163	Jan
	CO MO RE YOTSUYA Yotsuya Tower	Yotsuya / Bancho / Kojimachi / Kioicho	Shinjuku	41,957	1,492,960	Jan
	Kanda Square	Kanda-Nishikicho / Jinbocho	Chiyoda	25,790	917,701	Feb
	Otemachi One Mitsui & Co. Bldg	Marunouchi / Otemachi	Chiyoda	54,600	1,942,848	Feb
	Otemachi One Tower	Marunouchi / Otemachi	Chiyoda	54,600	1,942,848	Feb
	Kamiyacho Trust Tower	Nishi-Shinjuku	Shinjuku	59,045	2,101,016	Mar
	D Tower Nishi-Shinjuku	Toranomon / Kamiyacho	Minato	11,937	424,753	Mar
Under Construction	WATERS Takeshiba Tower Block	Shinbashi / Shiodome	Minato	18,846	670,591	Apr
	Tokyo Portcity Takeshiba Office Tower	Shinbashi / Shiodome	Minato	54,987	1,956,629	May
	Tokyo Toranomon Global Square	Toranomon / Kamiyacho	Minato	14,300	508,849	Jun
	msb Tamachi Station Tower N	Tamachi / Shibaura	Minato	46,083	1,639,796	Jul
	Sumitomo Fudosan Kojimachi Garden Tower	Yotsuya / Bancho / Kojimachi / Kioicho	Chiyoda	14,505	516,144	Aug
	Marunouchi 1-3 Proj	Marunouchi / Otemachi	Chiyoda	48,503	1,725,902	Sep

Source: Nikkei Real Estate Market Report

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