

**2.33%**  
Rental Growth, YoY

YoY Chg  
12-Mo. Forecast



**3.09%**  
Vacancy Rate



**0.54%**  
Absorption, QoQ



### Deteriorating Employment and Incomes Likely to Squeeze Consumption

Japan's real GDP in the April to June period shrank a revised 7.9% (-28.1% annualized) q-o-q, adjusted down from the preliminarily reported fall of 7.8%, reaching a post-war low in the face of the global economic impact of the COVID-19 pandemic. However, with economic activity resuming and some easing of international movement restrictions, Japan's GDP is now forecast to grow at 3.36% (annualized 14.15%), for July to September. The national unemployment rate reached 3.0% in August, a 39-month high. Total salary payments dropped for the fifth straight month in August, with payout from the June–July bonus season falling 2.6%. With many companies planning to lower full-year earnings expectations, winter bonuses are expected to weaken further, and there is concern that consumption will remain sluggish for a while.

### Greater Opportunities for Tenants

Average Grade A office asking rent in Q3 2020 was JPY38,434, up 0.79% q-o-q, the slight uptick driven by new availability in higher-rent offices. The vacancy rate rose 1.35 pp q-o-q to 3.09%, reaching a 3% level for the first time in 11 quarters. Secondary vacancies in existing buildings are also on the rise and we are seeing a widening gap between achievable rents and asking rents. Although scheduled new Grade A supply is limited for 2021 to 2022, overall vacancy is expected to continue to rise with firms seeking cost savings and greater adoption of remote working. With a new surge of supply due in 2023 an increase in secondary vacancies seems inevitable, with the trend of declining rents likely to accelerate. With more choices available to tenants there is more room for negotiation on rental terms, and a slow recovery in demand is expected.

### The Changing Face of the Office Space

All 13 new Grade A office buildings scheduled for 2020 have been completed, with 10 fully occupied thanks to successful pre-leasing activities pre-COVID-19. However, none of the new projects due after 2021 have achieved full capacity yet. With remote working becoming more prevalent, firms are looking to reduce fixed costs by downsizing or relocating offices, while those with sufficient financial resources are allocating savings to investment in growth. In the aftermath of COVID-19, offices are changing from being "working places" to becoming "collaboration spaces," with companies seeking to provide comfortable environments for staff. Tenants are demonstrating growing interest in smart buildings such as Port City Takeshiba -- incorporating AI and IoT technologies to prevent worker congestion and higher ceilings and more open spaces -- and focusing more on the wellbeing of office workers.

### JAPAN ECONOMIC INDICATORS Q1 2020

**-28.1%**  
Real GDP Growth

YoY Chg  
12-Mo. Forecast



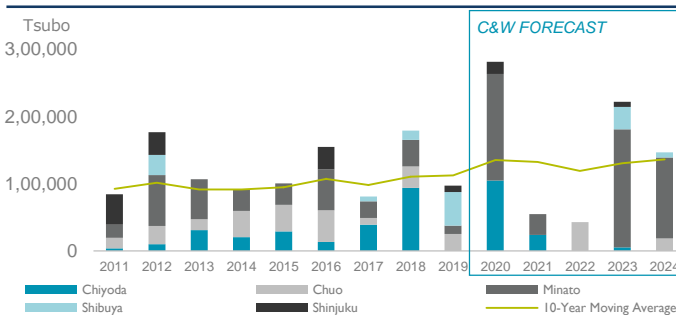
**0.0%**  
Core CPI Growth



**2.8%**  
Unemployment



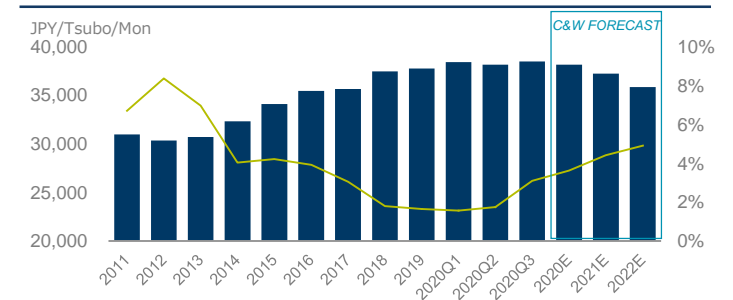
### New Supply (Tokyo 5 Wards)



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

Source: Cushman & Wakefield

### 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.

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
<b>TOKYO CBD GRADE A TOTAL</b>	<b>3.09%</b>	<b>0.54%</b>	<b>3,593,111</b>	<b>127,854,747</b>	<b>18,536</b>	<b>659,565</b>	<b>38,434</b>	<b>10.21</b>	<b>8.70</b>

USD/JPY = 105.80

EUR/JPY = 124.17

## MAJOR TENANT RELOCATION TO GRADE A OFFICE

TENANT	EXPECTED RELOCATION TIMING	INTO		FROM		EXPECTED OCCUPIED SPACE	
		BUILDING	SUBMARKET	BUILDING	SUBMARKET	TSUBO	SF
National Mutual Insurance Federation of Agricultural Cooperatives, CHUO COMPUTER SYSTEMS	Fall 2021	Mebukusu Toyosu	Toyosu	Kowa Kawasaki Nishiguchi Building	Kawasaki	7000	249083.1
Bristol Myers Squibb	First half of 2022	Otemachi One Tower	Otemachi	Shinjuku i-Land Tower	Nishi-Shinjuku	2800	99633.24
HAZAMA ANDO CORPORATION	Spring 2022	Tokyo Shiodome Building	Shiodome	Kokusai Shin Akasaka West Building	Akasaka	2000	71166.6
JAL Information Technology	43831	msb Tamachi Station Tower N	Tamachi	Shibaura Shimizu Building	Shibaura	1730	61559.109
NTT data business systems	Unknown	Hareza Tower	Ikebukuro	Urbannet Gotanda NN Building	Gtanda	1500	53374.95

## MAJOR GRADE A OFFICE SUPPLY 2020

Source: Nikkei Real Estate Market Report

STATUS	PROPERTY	SUBMARKET	WARD	EST. GROSS FLOOR SPACE (INC. NON-OFFICE)		COMPLETION
				TSUBO	SF	(Inc. Expected)
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	Toranomon / Kamiyacho	Minato	59,045	2,101,016	Mar
	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
	The ARGYLE Aoyama	Harajuku / Kita-Aoyama	Minato	6,957	247,553	Jun
	Tokyo Toranomon Global Square	Toranomon / Kamiyacho	Minato	14,296	508,713	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 TERRACE	Marunouchi / Otemachi	Chiyoda	48,503	1,725,902	Sep

Source: Nikkei Real Estate Market Report

## HIDEAKI SUZUKI, PhD

Head of Research &amp; Consulting

+81 3 3596 7804 / [hideaki.suzuki@cushwake.com](mailto:hideaki.suzuki@cushwake.com)

## ERIKA WATANABE

Research Analyst

+81 3 3596 7809 / [erika.watanabe@cushwake.com](mailto:erika.watanabe@cushwake.com)[cushmanwakefield.com](http://cushmanwakefield.com)

## A CUSHMAN &amp; WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of \$8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com) or follow @CushWake on Twitter.

©2020 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.