

-0.14%

Rental Growth, YoY

YoY Chg

12-Mo. Forecast



4.22%

Vacancy Rate



-1.71%

Absorption, QoQ



JAPAN ECONOMIC INDICATORS Q3 2020

22.9%

Real GDP Growth

YoY Chg

12-Mo. Forecast



-0.3%

Core CPI Growth



3.0%

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 Indicates Only Gradual Recovery

The Bank of Japan's outlook for real GDP growth rate for FY2020 has been revised downward to -5.6%, 0.1 pp lower than the previous forecast. Total exports value in 2020 declined by 11% y-o-y, the third-largest drop after the GFC in 2009 (-33.1%) and the Plaza Accord in 1986 (-15.9%). Exports to China were strong, and total export value in December was up y-o-y for the first time in 25 months. However, global economic recovery is now expected to be slower due to the re-emergence of COVID-19. In Japan, Capex spending has stopped falling overall in recent month, although with variations among industries, and consumer spending has been under increasing downward pressure to face-to-face services.

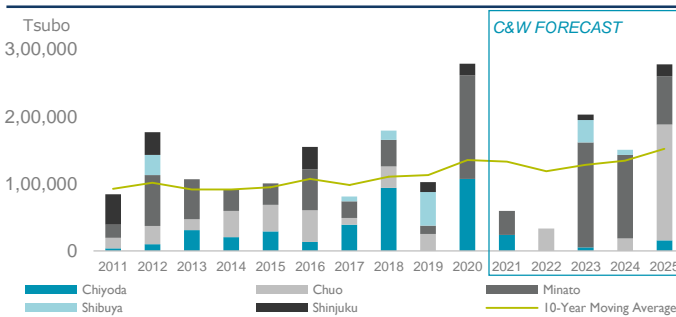
Vacancy Rate Trending Up

Average Grade A office asking rent in Q4 2020 was JPY37,684, down 1.95% q-o-q. The overall vacancy rate rose 1.13 pp q-o-q to 4.22%, exceeding the 4.06% mark of September 2008. Minato Ward, with a concentration of office developments, saw the highest vacancy rise among the five wards of central Tokyo, up 3.49 pp y-o-y to 6%. The vacancy rate in Shinjuku Ward, a hub of SMEs and sales offices, rose 2.88 pp y-o-y to 4.53%, with the ward susceptible to economic shifts. In Shibuya Ward, vacancy edged up 0.34 pp y-o-y to reach 2.89%, still under the 3% mark but now expected to rise in the short-to-medium term, as the district's concentration of IT firms expand remote working practices. Vacancy rises in Chiyoda and Chuo wards were limited compared to the other three wards, at 2.86% (+1.97 pp y-o-y) and 1.9% (+1.39 pp y-o-y), respectively. We expect the vacancy rate in the five central Tokyo wards to continue to trend up, with growing remote working practices and worsening financial conditions for firms combining to exert downward pressure on rental levels in high-vacancy areas.

Steady Shift in Office Demand Structure

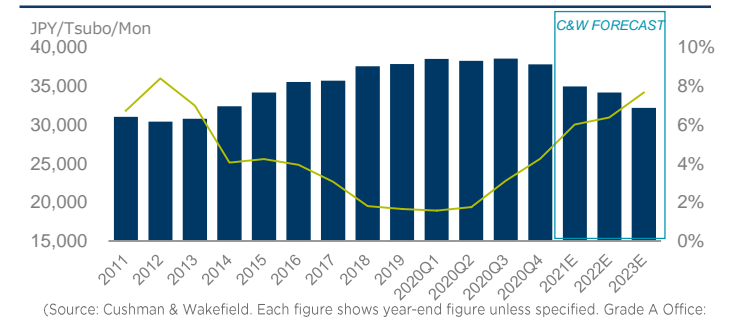
The state of emergency was issued to 11 prefectures at the start of this year but leasing demand has remained stable since early last fall. With the business environment uncertain due to the impact of COVID-19, more firms are looking to downsize their existing space or to relocate to serviced offices. With short-term contract relocations, demand for furnished offices is rising with firms seeking to cut relocation costs. Shared office operators are experiencing rising pay-as-you-go membership and are expanding their market share into the suburbs. Many companies are planning to ride out COVID-19 by cutting fixed costs, and as the post-pandemic period comes into view they will review location strategies. Demand for office space is steadily changing shape, with flexible offices offering employees various ways of working expected to become mainstream in the future. Workplaces are now evolving into ecosystems that include multiple options such as home and third places, rather than a single location.

New Supply (Tokyo 5 Wards)



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
TOKYO CBD GRADE A TOTAL	4.22%	-1.17%	3,593,111	127,854,747	-40,602	-1,444,759	37,684	10.23	8.34

EUR/JPY = 103.50 EUR/JPY = 126.95

MAJOR TENANT RELOCATION

TENANT	EXPECTED RELOCATION TIMING	INTO		FROM		EXPECTED OCCUPIED SPACE	
		BUILDING	SUBMARKET	BUILDING	SUBMARKET	TSUBO	SF
GREE	Aug 2022	Roppongi Hills Gate Tower	Roppongi	Roppongi Hills Mori Tower	Roppongi	2,940	104,615
Hitachi Social Information Services	Jan 2021	Omori Bellport D	Omori	Yokohama Mitsui Building	Yokohama	1,440	51,240
Mitsui Direct General Insurance	Jan 2021	Sumitomo Fudosan Iidabashi First Building	Iidabashi	Koraku Kokusai Building	Iidabashi	1,092	38,857
Furukawa Group	Jul 2021	TOKIWABASHI TOWER	Marunouchi / Otemachi	Marunouchi Naka-Dori Building/Asahi Mutual Life Insurance Otemachi Building	Marunouchi / Otemachi	1,090	38,786
BRIDGESTONE SPORTS	Dcember 2020 - January 2021	TOKYO SQUARE GARDEN	Kyobashi	World Trade Center Building	Hamamatsucho	816	29,036

MAJOR SPACE REDUCTION AND CANCELATION OF RELOCATION

TENANT	EXPECTED RELOCATION TIMING	BUILDING	SUBMARKET	EXPECTED REDUCED SPACE	
				坪	SF
Mitsubishi Chemical HD	Reduced	Palace Building	Marunouchi	-1,236	-43,981
Hitachi Solutions	Reduced	Hitachi Solutions Tower B	Shinagawa Seaside	-2,800	-99,633
and factory	Cancelled	msb Tamachi Station Tower N	Shibaura	1,300	46,258
BRIDGESTONE SPORTS CO., LTD	Cancelled	KANDA SQUARE	Kanda-Nishikicho	865	30,780
Toyoko Inn	Cancelled	Yotsuya Tower	Yotsuya	640-660	22,773-23,485

MAJOR GRADE A OFFICE SUPPLY 2020

STATUS	PROPERTY	SUBMARKET	WARD	EST. GROSS FLOOR SPACE (INC. NON-OFFICE)		COMPLETION (Inc. Expected)
				TSUBO	SF	
Under Construction	World Trade Centre Bldg South Tower	Shinbashi / Shiodome	Minato	28,810	1,025,143	Jan
	HIBIYA FORT TOWER	Kasumigaseki / Uchisaiwaicho	Minato	30,250	1,076,395	Jun
	TOKYO TORCH Tokiwabashi Tower	Marunouchi / Otemachi	Chiyoda	44,165	1,571,529	Jun

Source: Nikkei Real Estate Market Report

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