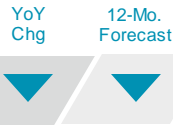


-5.18%
Rent Growth, YoY



3.18%
Vacancy Rate



7.92%
Availability Rate



JAPAN ECONOMIC INDICATORS Q2 2021

1.9%
Real GDP



-0.5%
Core CPI h



2.9%
Unemployment



Source: Cabinet Office, Statistics Bureau. GDP is annualized quarterly growth figures, seasonally-adjusted. Core CPI is YoY figure, seasonally-adjusted.

Survey targets and definitions

The definition of Grade A office	Completed after 2000, rental floor area of 6,000 tsubo / 213,500 sf or more; standard floor area of 500 tsubo / 17,792 sf or more.
Number of Buildings under the survey	116
Net Leasable Area under the survey	74,554,385 sf / 2,095,207 tsubo
Rent	Assumed Achievable rent, gross rent including CAM
Vacancy rate	Current vacancy divided by total Net Leasable Area where the space is immediately available
Availability rate	Available space divided by total Net Leasable Area and includes the space not yet vacated but lease cancellation notice has been accepted

Source: Cushman & Wakefield

Economic Recovery Falters as Tokyo Employment Remains Weak

Japan's GDP growth returned to positive territory in Q2, for the first time in two quarters, but annualized growth was at just 1.9% q-o-q. Economic recovery remains slow compared to the U.S. at 6.6% q-o-q and the Euro Area at 8.3% q-o-q. Consumer spending rose by only 0.9% under the periods of State of Emergency. Exports rose by 2.8%, but its growth was entirely offset by net import positions via increased vaccine import. Tokyo's total employment was down 100,000 y-o-y, at 8.03 million. The city's unemployment rate is still trending upwards, reaching 3.1% from a low of 2.3% in Q3 2019. However, the employment outlook is improving as the pandemic is contained; excluding hotel and restaurant sectors, the latest employment DI survey reported growing labor shortages in most industries as at the end of September 2021.

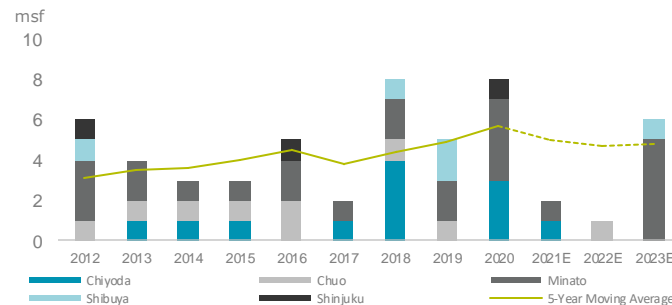
Landlords Prioritize Minimizing Vacancy Over Maintaining Rental Levels

For The average Grade A office vacancy rate rose to 3.18% in Q3, up 2.69 pp y-o-y, with assumed achievable rent ("rent") dropping 5.18% y-o-y to JPY JPY36,278/ US\$ 9.11. Demand for well-located properties with good facilities remains high, with landlords able to fill vacancy quickly with attractive lease terms. That said, vacancy is set to grow, with the gap between the vacancy rate and the availability rate (including future vacancy after tenants' termination notice submissions) expanding by 2.17 pp over the past six quarters. Landlords are already offering more flexible leasing conditions to secure tenants before their fiscal year-end. Ahead, we expect the pace of rent reduction to accelerate, on a y-o-y basis. Bifurcation among submarkets is already evident, reflecting shifting office demand. Rent in **Nihonbashi** fell 9.03% y-o-y, but the vacancy rate remained low at 1.27%, up 0.98 pp y-o-y. Vacancy in **Marunouchi / Otemachi**, with a cluster of Grade A buildings, was at 2.19%, up 1.74 pp y-o-y. In contrast, **Shinbashi and Shiodome** saw vacancy surge 10.25 pp y-o-y to 10.46%.

Declining Rents to Accelerate Relocations to Central Districts

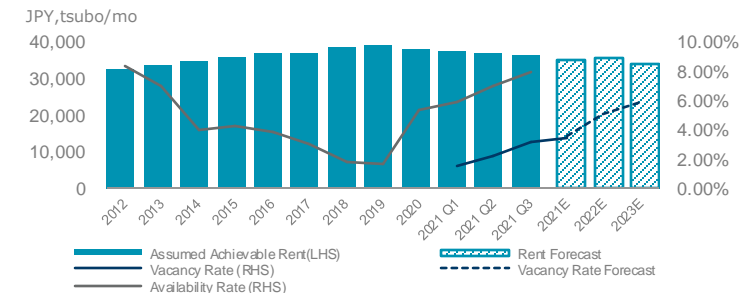
The introduction of remote and hybrid working policies was the key driver of office space downsizing in Q3. Fujitsu announced plans to reduce total floor space across their 10 offices by 21,680 tsubo / 771,446 Square Foot, contributing to a total reported net fall of 41,372 tsubo / 1,472,152 sf. New office strategies to accommodate the post-pandemic world are emerging among large companies, leading to a high commitment rate of 84.45% for incoming supply. However, forward commitment beyond the beginning of 2022 remained low at 5.31%. We also saw evidence of firms moving from outer locations to the central five wards in Q3, in line with falling rents. Major logistics firm SBS HD announced its relocation from Kinshicho to Nishi-Shinjuku, while Dai-ichi Frontier Life Insurance is to relocate from Osaki to Hibiya. Looking ahead, we expect steadily falling Grade A office rents to lift demand in more attractive locations over the coming years.

New Supply (Central 5 Wards)



Source: Cushman & Wakefield

Rent & Vacancy Rate (Central 5 Wards)



Source: Cushman & Wakefield

Key Market Indicator

Occupied Space Ended the Quarter (sf)	New Supply (sf)	Net Absorption ¹ (sf)	Vacant Space Ended the Quarter (sf)	Vacancy Rate	y-o-y	Availability Rate	y-o-y	Assumed Achievable Rent JPY, tsubo / mo	y-o-y	Assumed Achievable Rent US\$, psf / mo	y-o-y
72,182,539	265,523	-476,587	2,371,840	3.18%	+2.69pp ↑	7.92	+3.31pp ↑	36,287	-5.18% ↓	9.11	-10.36% ↓

USD/JPY=111.92 as of 3Q2021, USD/JPY=105.8 as of 3Q2020,
¹Net Absorption=Vacant Space at the beginning of quarter +New Supply during the quarter – Vacant Space at the end of the quarter

MAJOR TENANT RELOCATION

TENANT	INDUSTRY	RELOCATION TIMING (EXPECTED)	TO		FROM		OCCUPIED AREA (ESTIMATE) sf
			BUILDING	SUBMARKET	BUILDING	SUBMARKET	
SBS HD	Logistics	Feb 2022	Sumitomo Fudosan Shinjuku Grand Tower	Nishi-Shinjuku	OLINAS TOWER	Kinshicho	85,400
Dai-ichi Frontier Life Insurance	Financial services	September 2021 - April 2022	Hibiya FORT TOWER	Hibiya	Osaki Wiz Tower	Osaki	76,860
D2C, D2C R, D2C dot, D2C X, KAKEZAN	TMT	Aug 2021	Tokyo Shiodome Bldg.	Shinbashi / Shiodome	Nomura Fudosan Ginza Building	Ginza	60,492
The Dai-ichi Life Insurance Company	Financial services	Unknown	Kioi Tower	Yotsuya / Bancho / Kojimachi / Kioicho	GINZA SIX	Ginza	53,375
Uzabase, NewsPicks	TMT	spring 2022	Mitsubishi Bldg	Marunouchi / Otemachi	TRI-SEVEN ROPPONGI	Roppongi	49,817

Source: Nikkei Real Estate Market Report

MAJOR SPACE REDUCTION/ WITHDRAL ANNOUNCED

TENANT	INDUSTRY	STATUS	RATIONALE	LOCATION	SUBMARKET	EXPECTED REDUCED SPACE
Fujitsu, and Group Company	TMT	Reduced	Implementation of Telework	10 sites	Shiodome, Toranomon, Ginza, Shibaura, Shinagawa, Nishi-Shinjuku, Daiba, Kawasaki, Yokohama	-771,446
NTT Communications	TMT	Reduced	Implementation of Telework	Shiodome Bldg	Shiodome	-320,250
Mitsui Knowledge Industry	TMT	Reduced	Implementation of Telework	Atago Green Hills Mori Tower	Kamiyacho	-32,025
KPMG AZSA	Service	Reduced	Implementation of Telework	Otemachi Financial City Grand Cube, S-GATE OTEMACHI-KITA	Otemachi	-60,492
Mizuho Research & Technologies	TMT	Reduced	Location Strategy	Yasuda Sequence Tower	Kanda-Nishikicho / Jinbocho	-34,018
Transcosmos	Service	Reduced	Location Strategy	NBF Shibuya Garden Front	Shibuya	-156,567

Source: Nikkei Real Estate Market Report

GRADE A OFFICE: COMPLETED CONSTRUCTION Q3 2021

PROPERTY	SUBMARKET	WARD	GROSS LEASABLE AREA (sf)	COMPLETION
TOKYO TORCH Tokiwabashi Tower	Marunouchi / Otemachi	Chiyoda	1,571,536	Jun
Hibiya FORT TOWER	Kasumigaseki / Uchisaiwaicho	Minato	1,136,374	Jun
KABUTO ONE	Nihonbashi	Chuo	421,627	Aug

Note: no more delivery scheduled for the rest of 2021

Source: Cushman & Wakefield

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