

-4.6%
Rent Growth, YoY

YoY Chg
12-Mo. Forecast



3.7%
Vacancy Rate



8.0%
Availability Rate



**JAPAN ECONOMIC INDICATORS
4Q 2021 FORECAST**

2.0%
Nominal GDP



0.5%
Core CPI (preliminary
figures for Dec 2021)



3.1%
Unemployment



Source: Tokyo Metropolitan Government, Oxford Economics.

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

¹Oxford Economics (as of the end of January 2022)

²Sumitomo Fudosan Osaki Twin Building East Wing* and *JR Meguro MARC Building* are located in Shinagawa Ward and are not included in our Grade A standard.
Source: Cushman & Wakefield

Tokyo Set to Outpace National Economic Growth Rate as Omicron Wave Recedes

New COVID-19 cases continued to rise in Q4, exacerbating near-term downside economic risk. Since 2014, Tokyo's economy has reported a five-year CAGR of 1.3%, 0.2 pp lower than the national average. However, the economy is forecast to rebound strongly, with a five-year CAGR of 1.6% from 2021, up 0.2 pp on the national average. Tokyo's employment rate rose by 1.5% y-o-y, while nationwide employment fell by 0.1% y-o-y. The city's unemployment rate is expected to fall to 2.4% in the next five years, through expected expansion in the TMT and wholesale /retail industries. We expect an eventual shift towards hybrid working, primarily at large corporations, leading to normalization of long-term office demand.

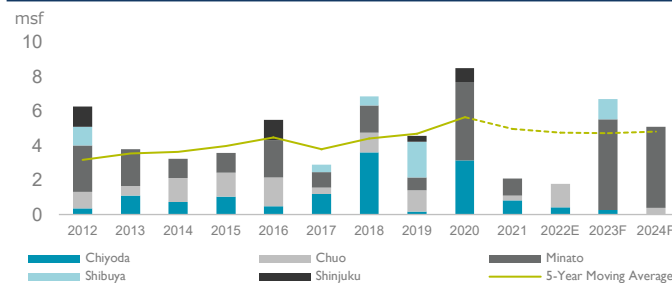
Minato Ward Reported Highest Vacancy Rate, Further Rise Possible

Tokyo's Grade A office market recorded rising vacancy in Q4 2021, up 2.2 pp y-o-y to 3.7%, with assumed average achievable rent ("rent") falling 4.6% y-o-y to JPY36,043 per tsubo per month / US\$8.81 per sq ft per month. Just two Grade A projects are scheduled to be delivered² in 2022: Kudan Kaikan Terrace and Tokyo Midtown Yaesu, with pre-commitment rates tracking around 60%. We also see large-scale developments to be delivered from mid-2023 continuing to attract corporate tenants with no immediate relocation needs. Within the Central 5 Wards, Minato reported the steepest rise in vacancy, up 3.6 pp y-o-y to record 6.2%. The performance differential among the sub-markets we survey has become notable: Shiodome/Shimbashi reported the highest vacancy rate, up 12.3 pp y-o-y to 12.4%. Despite growing numbers of tenants seeking to reduce floor space, Shinagawa Konan-guchi still reported vacancy of 5.8%, less than Minato Ward. We also note that the area's high concentration of Japanese telecommunication industry firms is likely to lead to future floor reductions. Many foreign corporate tenants in Roppongi/ Akasaka are also postponing relocation plans, with heightened uncertainties arising from global supply chain disruptions and rising input costs globally

Floor Space Contractions Outpace Expansions, Leading to Vacancy Uptick in Mid-Term

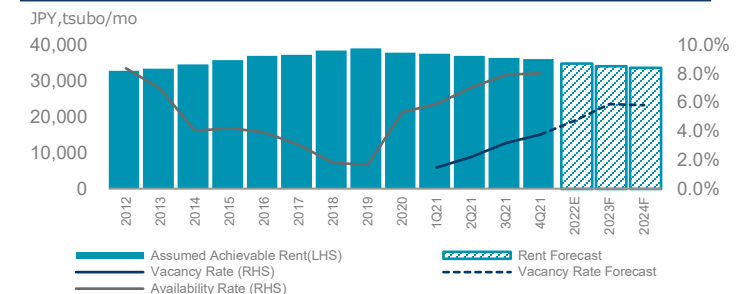
New leasing activity steadily improved in Q4, with floor space reductions from the introduction of remote working representing 29.0% of leasing volume. Floor expansion from business growth represented the second highest leasing volume of 21.1%. By industry, the TMT sector was the most active, representing the largest share at 27.6%. We expect manufacturing industry tenants to seek to reduce floor space in attempts to cut their fixed costs. SME tenants in the real estate industry saw the most positive momentum from business expansion, with younger firms maintaining their growth trajectory. However, floor expansion by SMEs has failed to offset the reduction by large corporation tenants in mature industries, and we expect an uptick in elevated vacancy rates over the next 2-3 years.

New Supply* (Central 5 Wards)



*Completed after 2000; rental floor area of 4,000 tsubo / 142,333 sf or more; standard floor area of 300 tsubo / 10,675 sf or more.
Source: Cushman & Wakefield

Rent & Vacancy Rate (Central 5 Wards)



Source: Cushman & Wakefield

Key Market Indicator

Occupied Space Period End (sf)	New Supply (sf)	Net Absorption ¹ (sf)	Vacant Space Period End (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
71,764,954	—	-418,644	2,790,492	3.7%	+2.2pp ↑	8.0%	+2.7pp ↑	36,043	-4.6% ↓	8.81	-14.1% ↓

USD/JPY=115.02 as of 4Q2021, USD/JPY=103.50 as of 4Q2020,

¹Net Absorption=Vacant Space at the beginning of quarter + Occupied Space of 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	
Rakuten Group	TMT	Unknown	NBF Shingawa Tower	Shinagawa	Unknown	Unknown	142,333
freee, SIGHT VISIT	TMT	Aug-22	Art Village Osaki Central Tower	Osaki	Gotanda First Building, OHM Buiding	Gotanda, Kanda	123,189
NAGASE & co.	Retail & Wholesale	Unknown	Tokiwabashi Tower	Otemachi	Own Property	Nihonbashi	81,842
JSOL	TMT	Oct-22	Kudanminami 1-Chome Project	Kudanshita	Harumi Center Building, Harumi Island Triton Square Office Tower Z	Harumi	80,062
LIXIL and some group companies	Manufacturing	Aug-22	Sumitomo Fudosan Osaki Garden Tower	Osaki	3 Own Properties	Ojima	71,451
Mitsui Bussan I-Fashion	Retail & Wholesale	Unknown	AKASAKA K-TOWER	Akasaka	Hulic Aoyama Building, Nittetsu Bussan Bldg	Aoyama, Akasaka	69,743

Source: Nikkei Real Estate Market Report

MAJOR SPACE REDUCTION/ WITHDRAL ANNOUNCED

TENANT	INDUSTRY	STATUS	RATIONALE	LOCATION	SUBMARKET	EXPECTED SPACE REDUCTION
Mitsubishi UFJ Information Technology	TMT	Reduced	Implementation of Telework	Harumi Front	Harumi	-355,833
MSD, MSD Japan	Medical&Welfare	Reduced	Implementation of Telework	Kitanomaru Square	Kudanshita	-53,375
GlaxoSmithKline	Medical&Welfare	Reduced	Implementation of Telework	Akasaka Intercity AIR	Akasaka	-36,402
Oracle Japan	TMT	Reduced	Unknown	Akasaka Center Building	Akasaka	-15,158
imperial brands japan	Retail & Wholesale	Reduced	Closed	Okura Prestige Tower	Toranomon	-8,184

Source: Nikkei Real Estate Market Report

GRADE A OFFICE NEW SUPPLY 2022: UNDER CONSTRUCTION

BUILDING	SUBMARKET	WARD	GROSS LEASABLE AREA (sf)	COMPLETION
Kudanminami 1-chome Proj	Iidabashi / Kudan	Chiyoda	731,948	Jul
Tokyo Midtown Yaesu	Kyobashi / Yaesu	Chuo	3,055,894	Aug

Source: Cushman & Wakefield

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