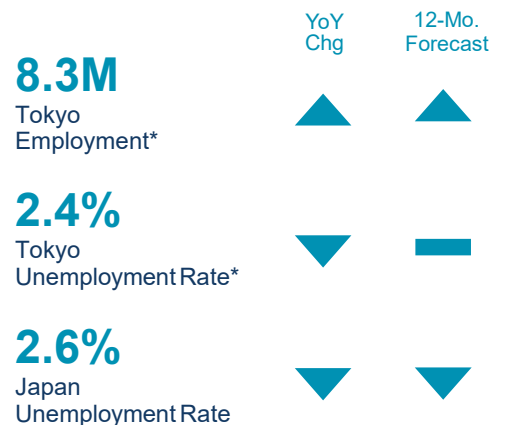


Average for Grade A Office buildings in Central 5W
Rent refers to the average assumed achievable rent unless otherwise noted

**ECONOMIC INDICATORS
Q1 2022**



Source: Tokyo Metropolitan Government, MIC
*Average for 4Q 2021

¹JPY rents are quoted per tsubo per month unless otherwise noted

ECONOMY: Tokyo's Employment Recovery Closing on Pre-COVID level

Tokyo's overall office employment level remains on a positive trajectory. Employment grew by 95,000 y-o-y in Q4 2021, with the city's unemployment rate falling by 0.6 pp y-o-y to record 2.4%. Growth was chiefly attributed to the Technology sector, representing an increase of 90,000 y-o-y. Nationwide, the Q1 2022 unemployment rate recorded a modest 0.1pp y-o-y fall to 2.7%. Positively, nationwide employment in the Information & Technology sector grew by 100,000 y-o-y, meaning a jump of 370,000 from March 2019. Professional services also recorded an increase of 90,000 y-o-y, marking a rise of 250,000 from March 2019. In contrast, the Retail & Wholesale sector has now recorded a fall of 200,000 from March 2019, as has the Manufacturing sector. We expect this uneven degree of employment recovery across major industries to continue in the coming quarters.

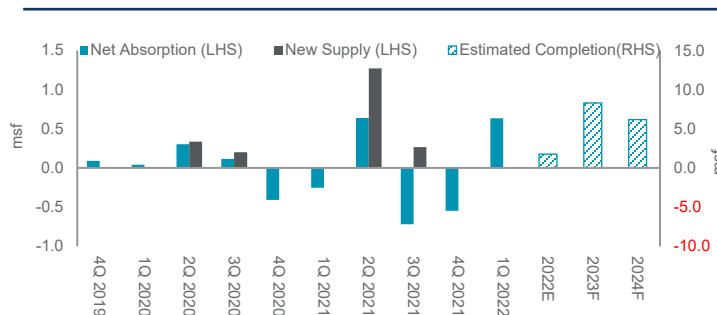
SUPPLY & DEMAND: Mixed Demand Across Submarkets with No New Supply During the First Quarter

Tokyo's C5W Grade A office building vacancy rate declined by 0.7pp q-o-q to 3.0%, still representing an increase of 1.6 pp y-o-y. Some large-building owners have started to reduce discounts in their asking rents, leading to an elevated vacancy rate in certain areas. By submarket, Shinbashi/ Shiodome recorded a vacancy rate increase of 16.7 pp y-o-y to 17.5%, slightly below the peak of 19.3% recorded in Q4 2021. Roppongi recorded a notable fall in vacancy, down 1.6 pp y-o-y, to 3.5%, reflecting sizeable take-up, mostly through short-term lease contracts. Shibuya reported a vacancy drop of 0.5 pp y-o-y, marking near-full occupancy of Grade A office properties. Flight-to-quality trends, in favor of newly built and amenity-rich buildings, has been evident through higher pre-commitment rates at incoming supply due over the next two years. The pre-commitment ratio of incoming supply for 2022 and 2023 has risen to 48.7% and 27.5% respectively, partially offsetting new supply volume concerns from 2023 onwards.

PRICING: Diminished Locations' Appeal Reflected in Larger Asking Rent Discounts

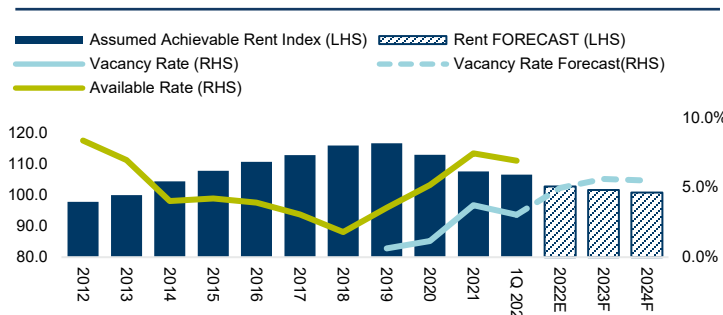
Tokyo overall average assumed achievable rent declined 4.8% y-o-y to JPY34,678 per tsubo per month¹ equivalent to \$8.22 per square foot per month (psf/mo). Most large office buildings still offer above-average rent discounts to minimize vacancy risk. With large building asking rent reduced by more than 15% from one year ago, Hamamatsu-cho recorded a notable rent decline of 9.3% y-o-y to JPY29,724 (\$7.05 psf/mo). Shinagawa Konanguchi recorded a similar fall of 7.9% y-o-y to JPY28,541 (\$6.77 psf/mo), driven by a series of large asking rent discounts in excess of 10%, leading to the area's rent now priced at 15.4% below the Q4 2019 level. Roppongi saw a softer drop, down 3.3% y-o-y to JPY35,798 (\$8.49 psf/mo) after recording the steepest decline in Q3 2021. While the area's rent continues to trend down, the slide is less than the Tokyo C5W average rent decrease at 4.8% y-o-y.

NET ABSORPTION/ INCOMING SUPPLY



Source: Cushman & Wakefield

GRADE A OFFICE : VACANCY & RENT INDEX



Source: Cushman & Wakefield

Occupier Transactions: TMT Leads the Take-Up, Partially Offsetting Floor Reduction

New leasing transactions maintained an upward trajectory in Q1 2022, as declining rents prompted tenants to upgrade their office space at a more affordable rate. Overall, Tokyo's occupied area still saw a net decrease of 349 tsubo. However, with more employees returning to the office, the pace of floor reductions started to slow relative to one year ago, with the corresponding net decrease at 13,484 tsubo. The TMT industry remained the largest demand driver, securing 12,507 tsubo or 34% of the newly occupied space during the quarter. Overall occupier momentum remains mixed. The majority of relocations were evenly attributed to either cost reduction/functional consolidation strategies, or floor expansion to accommodate business expansion, each accounting for 20.3%. Floor reductions stemming from remote work strategy implementation accounted for 11.6% of relocations

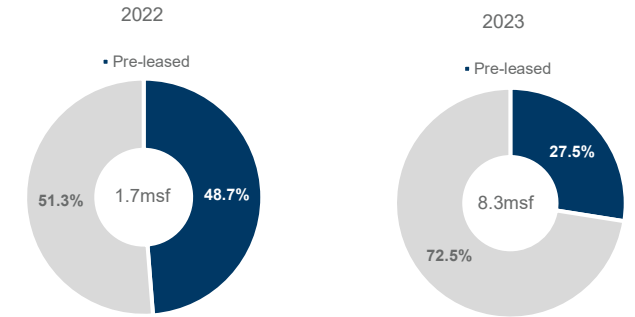
Investor Transactions: More Owner-occupied Buildings to Come to Market

An increasing number of owner-occupied office buildings have come on sale, with the number of such transactions by listed companies rising by 14.6% y-o-y to total 87, marking the third consecutive annual rise at the fiscal year ended March 2022. The REIT sector has also been active in realizing profits before the end of their fiscal year in March. Elsewhere, global investors face more headwinds, with increasing concerns over disappearing CRE investment risk premiums due to higher inflation, such as in the United States; and more aggressive pricing due to strong domestic real estate investment appetite, such as in South Korea. We expect rising appetite among major foreign investors, on the back of the yen's historic weakness, leading to upsizing in the average deal size. Subsequently, we expect to see total investment volume lifting onto an upward trajectory in the coming quarters.

Outlook

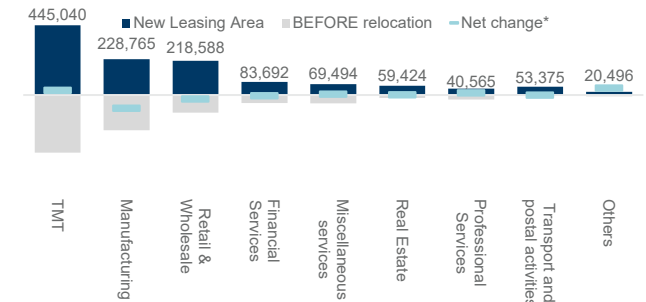
- **Expect flight-to-quality to accelerate among major tenants:** Tokyo's overall rent has become more affordable, with remote working strategies leading to net floor reductions, typically among large office tenants occupying Grade A office buildings. Well-located, high-quality office spaces continue to attract greatest demand, as evident from high occupancy rates at incoming new projects. Conversely, we expect to see an extended period of vacancy for lower-quality office space in less differentiated properties.
- **Expect downwards trending rents to mitigate vacancy risk:** Despite a rebound in the overall leasing transaction volume, most tenants are still choosing downsizing, reducing the average size of occupied area per tenant. We expect vacancy in older properties to remain elevated, leading to further overall downward pressures on rent, averaging around a 6% reduction over the next two years.
- **Expect mixed vacancy trends by submarket:** Demand remains mixed across submarkets, with some less-favored districts unable to fill vacancy despite further rent discounts. We recommend owners to focus on tenant risk management in advance, particularly focusing on tenants operating in highly cyclical industries. We recommend occupiers to prepare for their relocation early to secure quality office space.
- **Expect robust foreign investor demand leading to larger average transaction size:** As overall investor demand continues to exceed available supply, bid-ask spreads have been trending downward. However, office sector fundamentals remain weak relative to other sectors, elevating the risk of mispricing of new acquisitions.

PRE-COMMITMENT % OF INCOMING SUPPLY



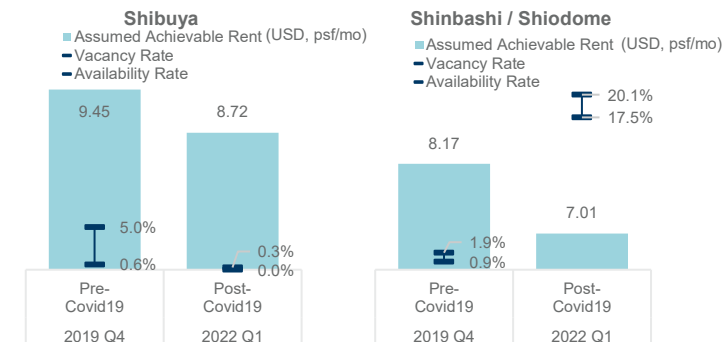
Source: Cushman & Wakefield

LEASING TRANSACTION VOLUME BY INDUSTRY (SF)



*Only for relocation transactions where both before and after relocation areas are known

COMPARING RENT AND VACANCY AGAINST PRE-COVID 19



Source: Cushman & Wakefield

MARKET STATISTICS

SUBMARKET	NET LEASABLE AREA (SF)	INVENTORY (SF)	AVAILABILITY RATE		VACANCY RATE		CURRENT QTR NET ABSORPTION** (SF)	YTD OVERALL ABSORPTION** (SF)	YTD NEW SUPPLY (SF)	UNDER CNSTR (SF)	AVG ASKING RENT* IN USD (PSF/MO)		AVG ASSUMED ACHIEVABLE RENT* IN USD (PSF/MO)	
			Y-O-Y	Y-O-Y	Y-O-Y	Y-O-Y					Y-O-Y	Y-O-Y		
Marunouchi / Otemachi	21,079,943	20,571,180	5.0%	+1.5pp↑	2.4%	+1.3pp↑	-25,327	-25,327	0	0	\$11.28	-4.8%↓	\$10.59	-5.0%↓
Roppongi	7,304,470	7,048,000	10.2%	+1.2pp↑	3.5%	-1.6pp↓	187,484	187,484	0	750,460	\$9.62	-2.0%↓	\$8.49	-3.3%↓
Kyobashi / Yaesu / Nihonbashi	5,144,091	5,106,997	1.7%	-0.6pp↓	0.7%	+0.7pp↑	67,842	67,842	0	3,010,520	\$9.97	-3.1%↓	\$9.35	-2.7%↓
Toranomon / Kamiyacho	5,029,399	4,973,001	2.3%	-0.1pp↓	1.1%	-0.2pp↓	17,276	17,276	0	5,335,885	\$9.19	-3.4%↓	\$8.47	-5.0%↓
Shinagawa Konanguchi	4,843,287	4,746,376	4.8%	-4.0pp↓	2.0%	-0.6pp↓	101,001	101,001	0	3,238,071	\$7.48	-5.9%↓	\$6.77	-7.9%↓
Shibuya	4,187,946	4,187,946	0.3%	-3.4pp↓	0.0%	-0.5pp↓	12,119	12,119	0	1,496,389	\$9.95	-0.8%↓	\$9.00	-1.2%↓
Shinbashi / Shiodome	4,121,524	3,401,139	20.1%	-4.4pp↓	17.5%	+16.7pp↑	76,374	76,374	0	170,889	\$7.91	-0.5%↓	\$7.23	-3.9%↓
Hamamatsucho/ Onarimon	3,574,905	3,444,358	11.7%	+7.2pp↑	3.7%	+3.6pp↑	3,053	3,053	0	0	\$7.75	-8.2%↓	\$7.05	-9.3%↓
Kasumigaseki / Uchisaiwaicho	3,540,133	3,516,199	3.1%	+2.5pp↑	0.7%	+0.4pp↑	-4,465	-4,465	0	263,316	\$8.65	-3.2%↓	\$7.74	-6.5%↓
Akasaka	3,365,366	3,319,136	10.3%	+3.4pp↑	1.4%	-2.0pp↓	9,720	9,720	0	1,690,202	\$8.34	-5.3%↓	\$7.70	-6.4%↓
Central 5	93,579,796	90,737,798	6.9%	+1.1pp↑	3.0%	+1.6pp↑	632,059	632,059	0	21,199,405	\$8.96	-3.9%↓	\$8.22	-4.8%↓

*Gross rental rates including CAM, YoY change in average asking rent is based on change in local currency

**Net Absorption=Vacant Space at the beginning of quarter +Occupied Space of New Supply during the quarter - Vacant Space at the end of the quarter

Source: Cushman & Wakefield
USD/JPY=118.53 as of March 2022, monthly-average

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	INDUSTRY SECTOR	RSF	REASONS FOR RELOCATION
Shibuya Hikarie	Shibuya	Bytedance	TMT	166,886	Unknown
NBF Shibuya Garden Front	Shibuya	Infinion Technologies Japan	Manufacturing	131,658	Expansion/Increasing workforce
Sumitomo Fudosan Aoyama Building East	Akasaka	TSI HD	Retail & Wholesale	94,936	Location Strategy
Sumitomo Fudosan Hanzomon Ekimae Building	Bancho / Kojimachi	Nissin	Transport and postal activities	53,375	Unknown
Gran Tokyo South Tower	Marunouchi / Otemachi	Recruit	Miscellaneous services	46,258	Location Strategy

Source: Nikkei Real Estate Market Report

KEY SALES TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$PSF
fmr ANA Training & Business Center	Ota-ku	ANA Holdings / Disco Corporation	678,224	\$243M / 359
Sun Mullion NBF Tower	Osaka-shi Chuo-ku	Nippon Building Fund / SPC	160,961	\$125M / 777
Akasaka 4-Chome Bldg (Tokyu Agency Head Office)	Minato-ku	Tokyu REIT / Undisclosed	38,030	\$85M / 2,243
Meguro Higashiyama Bldg	Meguro-ku	Obayashi-Shinsewa RE / Tokyu REIT	66,225	\$70M / 1,062

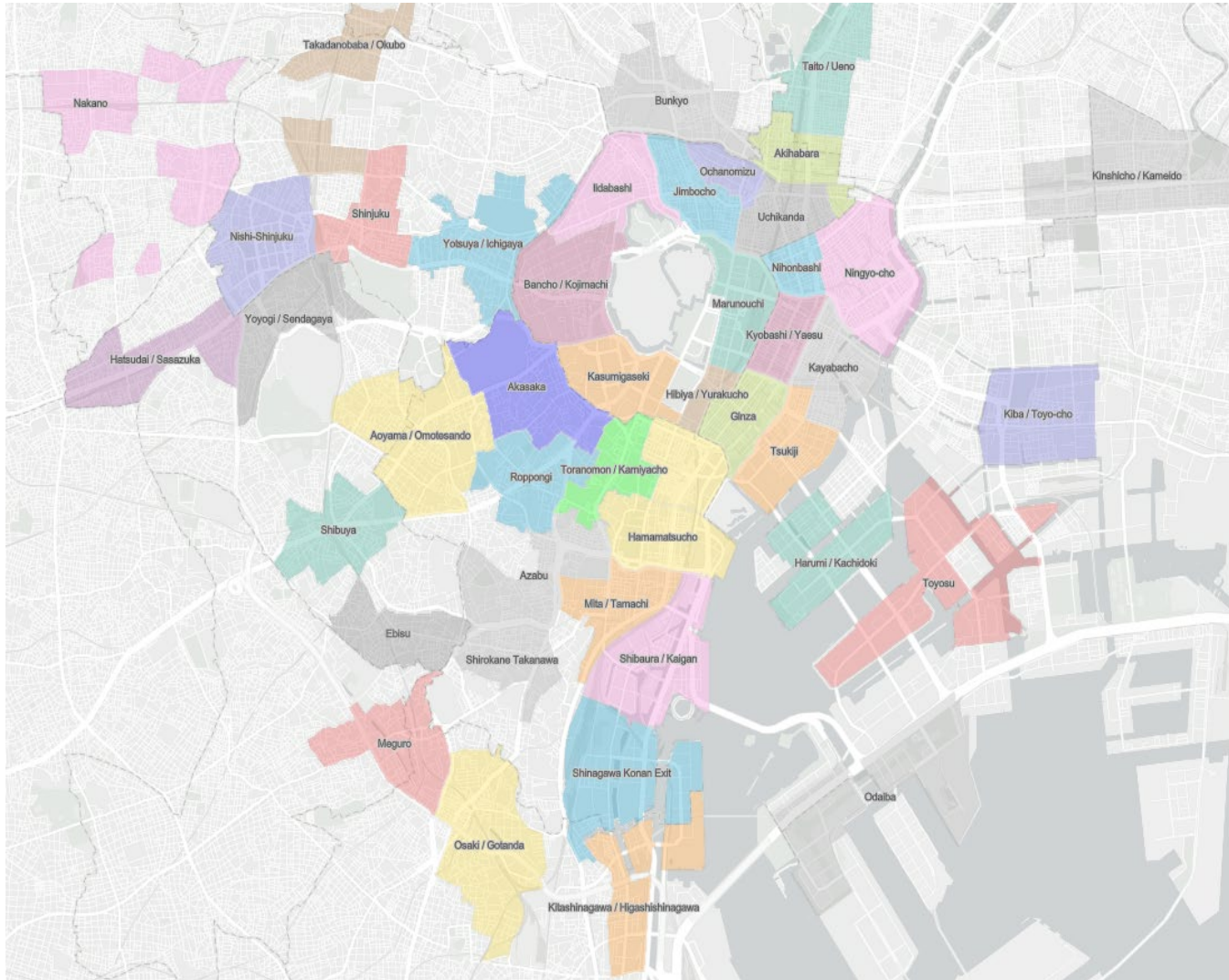
Source: Real Capital Analytics (RCA)

KEY CONSTRUCTION COMPLETIONS YTD 20XX

PROPERTY	SUBMARKET	MAJOR TENANT	INDUSTRY SECTOR	GROSS FLOOR AREA (SF)	COMPLETION	OWNER / DEVELOPER
Kudan Kaikan Terrace	Iidabashi / Kudan	MISUMI Group	Manufacturing	731,948	Jul	Tokyu Land, Kajima
Tokyo Midtown Yaesu	Kyobashi / Yaesu	M&A Capital Partners	Financial Services	3,055,894	Aug	Mitsui Fudosan

Source: Cushman & Wakefield

OFFICE SUBMARKETS



Source: ESRI, Cushman & Wakefield

The scope of market survey and office grade definition

	Grade : Grade A Office in Central 5 Wards
Surveyed	Number of Buildings : 200
	Net Leasable Area : 2,629,887tsubo / 93,579,796sf
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
Office Grade	Grade A Grater Tokyo, Nagoya, Osaka / 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
	Grade B Grater Tokyo, Nagoya, Osaka / Completed after 1983 / rental floor area of 2,000 tsubo / 71,166 sf or more; standard floor area of 200 tsubo / 7,117 sf or more in Grater Tokyo, 150 tsubo / 5,337sf or more in Osaka and Nagoya

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