

# MARKETBEAT TOKYO

Office Q2 2022



y-o-y  
Chg

12-Mo.  
Forecast

**3.4%**  
Vacancy Rate



**-375K**  
Net Absorption, SF



**-4.2%**  
Assumed Achievable Rent (y-o-y)



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

## ECONOMIC INDICATORS Q2 2022

y-o-y  
Chg

12-Mo.  
Forecast

**8.4M**  
Tokyo  
Employment\*



**2.8%**  
Tokyo  
Unemployment Rate\*



**2.6%**  
Japan  
Unemployment Rate



Source: Tokyo Metropolitan Government, MIC  
\*Average for Q1 2022

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

## ECONOMY: Tokyo's employment recovery continues despite rising recession risk

Rising risk of recession, from higher inflation, Yen weakness, and an extended period of supply chains disruption led to the real GDP growth forecast revised downward to 1.8 percent in 2022 and 1.2 percent in 2023. However, Tokyo's employment recovery remains firm. Its unemployment rate increased by 0.1pp to 2.8% in Q1 22, but the number of employee increased by 41,000 y-o-y through increasing labor participation rate of women and young workers under 24 years. By industry, IT industry increased the employment by 5.9% y-o-y to 51,000, corresponding to 130,000 increase from Q4 2019. Professional services, rebounded strongly, up 14% y-o-y to 77,000, corresponding to 99,000 increase from Q4 2019. Conversely, Financial Services decreased the headcount by 55,000 from 4Q 2019. Expect an uneven employment recovery across industries in the coming quarters.

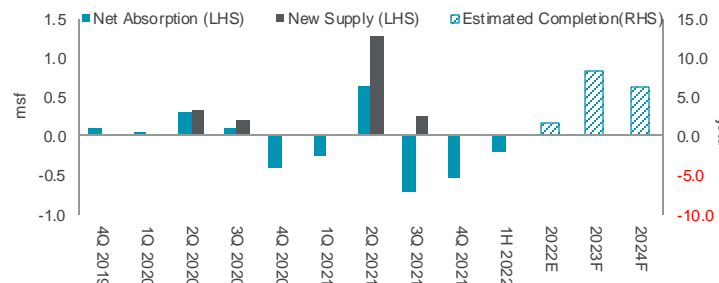
## SUPPLY & DEMAND: Availability rate remains elevated in the Bay area with poor access to CBD

With pause in new supply, floor reduction has become more wide-spread among tenants. The Grade A vacancy rate in Central 5 wards rose 0.4pp y-o-y to 3.4%. Gap between availability rate and vacancy rate has widened, suggesting more mixed performance ahead. By submarket, Shinbashi/Shiodome continues to report the highest vacancy rate at 15%, although the availability rate already peaked at 27% in summer 2021, trending downward to 18%. Roppongi's vacancy rate declined by 3.8pp y-o-y to 2.9%. However, an increasing ratio of short-term contracts lifted the area's availability rate around 10%. In the Bay areas of Harumi/Kachidoki/Higashi-Shinagawa, poor access to CBD lifted the availability rate above 35%, while high-quality new buildings in Toranomon/Kamiyacho recorded the limited availability rate increase to 2.3%. Together with Shibuya, the area's vacancy rate remains below 1%. See page 4 for mapping the net change of available area and the latest available ratio in key submarkets.

## PRICING: Increasing pressure to reduce rent particularly among large buildings ahead of expected supply

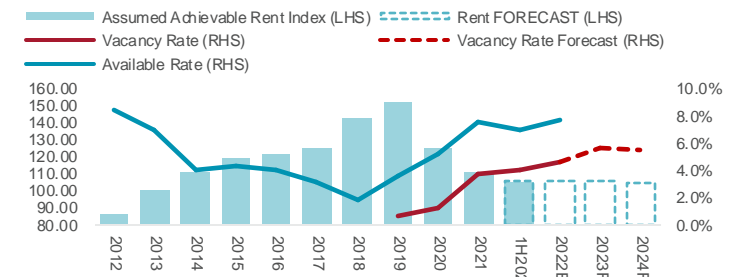
The Grade A average assumed achievable rent ("rent") declined 4.2% y-o-y to ¥34,258<sup>1</sup>. Increasing pressure to reduce rent, particularly among large buildings with a view to lump-up supply starting from 2023. Hamamatsu-cho/Onarimon's rents declined 7.4% y-o-y with the asking rent decreased by 6.5% y-o-y. Pricing pressures increased with free rents extending beyond six months in unpopular districts, including Harumi and Kachidoki and Shinjuku East Exit. As we illustrated the rent CAGR by building size since Q4 2019 on the next page, the median rent reduction tends to be in the range of 6-8% per annum across various size of the floor space leased. Elsewhere, increasing demand for enhanced office amenity enabled significant rent increases for some small and medium-sized buildings, while most large-sized buildings saw the rent decrease typically up to 10% per annum.

## NET ABSORPTION/ INCOMING SUPPLY



Source: Cushman & Wakefield

## GRADE A OFFICE: VACANCY & RENT INDEX



Source: Cushman & Wakefield



### Occupier Transactions: Falling rent promoted more tenant to initiate leasing transactions

Leasing transaction volume increased on declining rents with the H1 2022 transaction volume already reached 88%/66% of the 2020/2021 transaction volume. Larger transaction size, averaged about 530 tsubo (18,860 sf), an increase of about 40% y-o-y, suggests more large corporations are initiating office relocation in post pandemic world. With limited impact from remote working, the Manufacturing sector saw a net increase of 3,640 tsubo (129,520 sf), led by Kyocera's office consolidation in CBD. Despite NTT DoCoMo's withdrawal of 4,400 tsubo (156,570 sf), TMT industry benefits from a wide range of small/young tenant expansion needs, leading to the net increase of 2,140 tsubo (76,150 sf). Elsewhere, relocation is increasingly attributed to office consolidation to reduce the overall occupancy cost. Wholesale/Retail recorded a net decrease of 1,470 tsubo (52,310 sf) despite new leasing demand emerging from increased sales of owner-occupied buildings. Financial Services also suffers from weak demand with Deutsche Bank's net floor reduction of 1,650 tsubo (214,022 rsf).

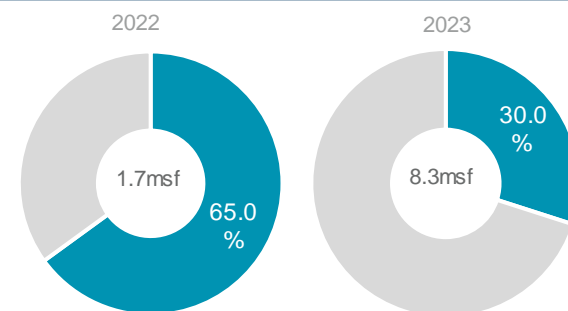
### Investor Transactions: Increasing sales of owner-occupied buildings provides opportunities

Dimming business prospects prompted increasing sales of owner-occupied buildings, although the overall investment volume remains near flat year to date. During the quarter, large buildings were traded in CBD, Tokyo Bay, and Yokohama. Nippon Pulp & Paper executed the sales and lease-back of four buildings, including their headquarter in Kachidoki to realize an estimated capital gain of ¥16.6 billion. Similarly, Nippon Express sold its former head office building, with an estimated gain of ¥53 billion. JRE REIT sold Harumi Center Building to a fund after the office rent declined at CAGR of minus 2.3% since 2010, falling substantially below the area's average. Hulic, the buyer of Minato Mirai Center Building, estimated to worth above ¥100 billion, will transfer its title to TMK by the end of the year. Investment appetite remains strong among foreign investors. With currency tail winds, investment appetite remains strong in sales & leaseback and repurposing, justifying larger transactions ahead in the coming quarters.

### Outlook

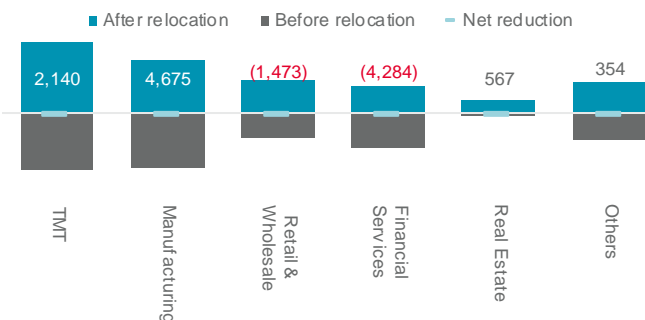
- **Rent discount to accelerate:** Despite active leasing markets, most tenants still choose downsizing, reducing the occupied space on average. We expect rental decline of 6% over the next two years. Landlords are encouraged to offer more flexible leasing terms to secure quality tenants in timely manner.
- **Increasingly mixed vacancy trends by submarket:** We expect vacancy rate to increase toward 5%, with the market down cycle to continue at least until 2025. Gap among submarkets are expected to increase, with underperforming submarkets unable to fill their vacancies even with further rents discount. Landlords in Roppongi started to shorten the leasing cycle to curb increasing pressure of rent discount from more volatile demand. Tenants are encouraged to leverage their positioning as a buyer in market down cycle when renewing their lease contracts.
- **Value-Add Investors are on the rise:** Investment transactions are increasing in the Bay area with notable rent decline over recent years. As former industrial site, the area is known for elevated vacancy rates in mostly larger buildings, with tenants mostly attributed to middle office functions that can be automated. However, core plus investors still can find stable NOI from sales leasebacks and building renovations. Value-add investors can also seek capital gain through rent increase through repurposing to other uses.

### PRE-COMMITMENT % OF INCOMING SUPPLY



Source: Cushman & Wakefield

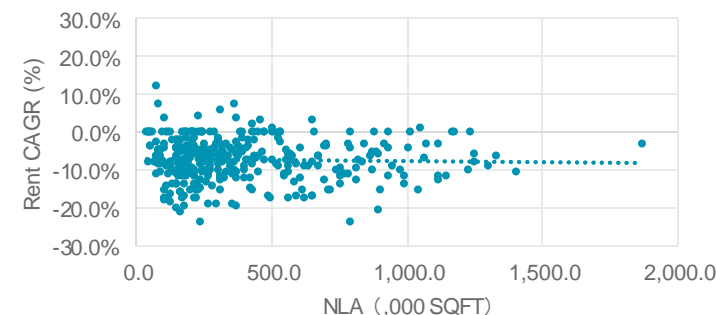
### LEASING TRANSACTION VOLUME BY INDUSTRY (SF)



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

Source: Cushman & Wakefield

### RENT CAGR BY BUILDING SINCE COVID-19 (Q4 19/Q2 22)



Source: Cushman & Wakefield





## MARKET STATISTICS

SUBMARKET	NET LEASABLE AREA (SF)	INVENTORY (SF)	AVAILABILITY RATE	Y-O-Y	VACANCY RATE	Y-O-Y	CURRENT QTR NET ABSORPTION* (SF)	YTD OVERALL ABSORPTION* (SF)	YTD NEW SUPPLY (SF)	UNDER CNSTR (SF)	AVG ASKING RENT** IN USD (PSF/MO)	Y-O-Y	AVG ASSUMED ACHIEVABLE RENT** IN USD (PSF/MO)	Y-O-Y
Marunouchi / Otemachi	21,080,010	20,413,146	5.1%	0.89%	3.2%	0.91%	-160,944	-183,427	0	0	\$10.25	-4.3%	\$9.68	-3.6%
Kyobashi / Yaesu / Nihonbashi	5,144,100	5,087,146	4.0%	1.44%	1.1%	-0.57%	-20,945	47,983	0	3,010,525	\$8.96	-4.6%	\$8.33	-4.8%
Shibuya	4,187,941	4,144,846	3.0%	-6.88%	1.0%	0.63%	-43,095	21,218	0	3,326,256	\$8.89	-0.8%	\$8.20	0.6%
Toranomon / Kamiyacho	5,029,415	4,981,746	2.3%	-0.36%	0.9%	-0.30%	7,655	26,005	0	5,335,894	\$8.95	3.0%	\$8.01	0.4%
Roppongi	7,304,504	7,064,728	9.4%	-0.02%	3.3%	-3.49%	15,882	204,181	0	750,452	\$8.89	0.5%	\$7.93	1.0%
Akasaka	3,365,362	3,307,967	9.3%	3.66%	1.7%	-1.20%	-10,280	-1,446	0	1,690,207	\$7.64	-0.3%	\$7.06	-3.0%
Kasumigaseki / Uchisaiwaicho	3,540,147	3,461,417	4.3%	3.24%	2.2%	1.94%	-53,949	-59,262	0	263,316	\$7.83	-3.2%	\$7.02	-6.2%
Shinbashi / Shiodome	4,121,542	3,509,138	16.4%	-7.29%	14.9%	11.14%	108,866	184,358	0	170,907	\$7.23	-2.6%	\$6.46	-7.3%
Hamamatsucho/ Onarimon	3,574,912	3,441,460	11.3%	-2.02%	3.7%	3.67%	-1,180	149	0	0	\$7.09	-6.5%	\$6.37	-7.4%
Shinagawa Konanuguchi	4,843,314	4,749,475	3.2%	-6.74%	1.9%	0.43%	3,027	104,073	0	3,238,080	\$6.84	-2.8%	\$6.19	-3.5%
<b>Central 5</b>	<b>93,580,058</b>	<b>90,380,835</b>	<b>6.8%</b>	<b>-0.2%</b>	<b>3.4%</b>	<b>1.3%</b>	<b>-374,834</b>	<b>277,016</b>	<b>0</b>	<b>23,913,685</b>	<b>\$8.09</b>	<b>-3.7%</b>	<b>\$7.42</b>	<b>-4.2%</b>

\* 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

\*\* Gross rental rates including CAM, y-o-y change in average asking rent is based on change in local currency

Source: Cushman & Wakefield

USD/JPY = 129.71 (Q2 2022 BoJ quarterly average)

## KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	FORMER LOCATION	SUBMARKET	TENANT	INDUSTRY	RSF	RSF NET CHANGE	REASONS FOR RELOCATION
Tokyo Midtown Yaesu	Kyobashi / Yaesu	Shiodome City Center	Shimbashi / Shiodome	Mitsui Chemicals	Manufacturing	132,370	-17,080	Remote work implementation
Tokyo Mita Redev elopment Project Office Tower	Mita / Tamachi	I.S Building	Kita-Shinagawa / Higashi-Shinagawa	KYOCERA	Manufacturing	199,266	71,345	Remote work implementation
-	-	Akasaka Intercity Air	Akasaka	NTT Docomo	TMT	0	-156,567	Remote work implementation
Tokyo Shiodome Building	Shinbashi / Shiodome	Meiji Yasuda Life Insurance Building	Marunouchi / Otemachi	ACOM	Financial Services	51,418	5,515	Location Strategy
Toranomon-Azabudai Project	Azabu	Sanno Park Tower	Akasaka	Deutsche Bank AG	Financial Services	49,817	-58,712	Remote work implementation

Source: Nikkei Real Estate Market Report

## KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
fmr Nippon Express HQ Building	Minato-ku, Tokyo	Nippon Express / Minebea Mitsui	571,325	\$583.9M / \$1,022
Forefront Tower (Kachidoki, 4 buildings)	Chuo-ku, Tokyo	Japan Pulp & Paper / Goldman Sachs TMK	426,537 <sup>1</sup>	n.a.
Harumi Center Building	Chuo-ku, Tokyo	JRE REIT / LaSalle Investment Management	284,666	\$187.4M / \$836
Minato Mirai Center Building	Yokohama CBD	Goldman Sachs/ Hulic	988,896	\$835M / \$1,214

<sup>1</sup> GFA total for office use, Source: Real Capital Analytics (RCA)

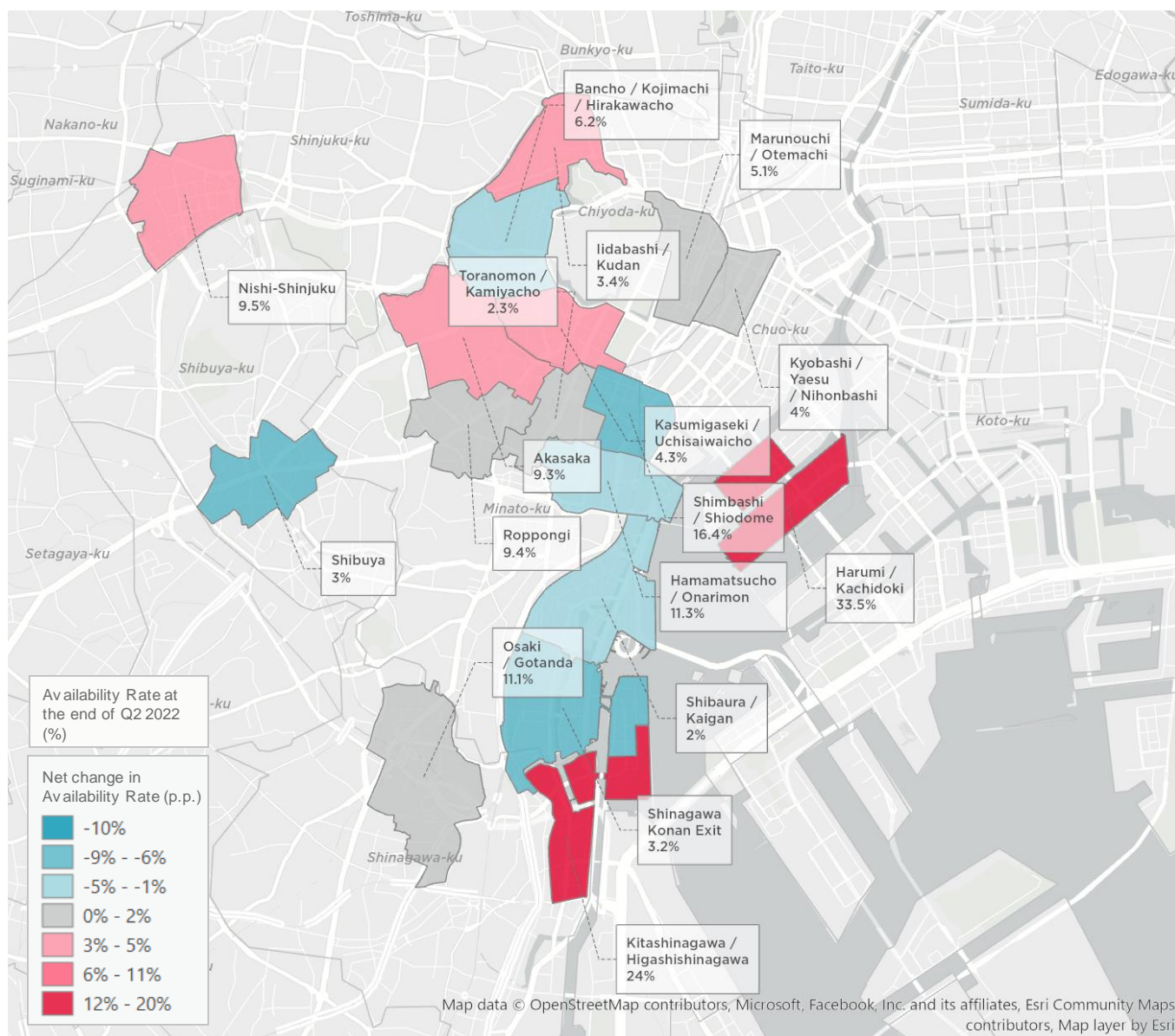
## KEY CONSTRUCTION COMPLETIONS YTD 2022

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

Source: Cushman & Wakefield



### Availability Rate by Submarket: Which submarkets are in demand over the past 12 months?



### 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: 2,629,887 tsubo / 93,579,796 sf
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 300 tsubo / 7,117 sf or more in Grater Tokyo, 150 tsubo / 5,337sf or more in Osaka and Nagoya

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