

MARKETBEAT TOKYO

Office Q4 2022



y-o-y
Chg

12-Mo.
Forecast

3.4 %

Vacancy Rate



1,976K

Net Absorption, SF



-1.3%

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 Q4 2022

y-o-y
Chg

12-Mo.
Forecast

8.3M

Tokyo
Employment*



2.5%

Tokyo
Unemployment Rate*



2.5%

Japan
Unemployment Rate



Source: Tokyo Metropolitan Government, MIC
*Average for Q3 2022

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

ECONOMY: Tokyo's Employment Recovery Continues

Despite the projected global real GDP growth for 2023 falling below 2%, Japan's real GDP growth is expected to remain steady at +1.1% in 2023 and +1.2% in 2024. On a positive note, Tokyo's employment growth continues to track above the national average. In Q3 2022, Tokyo's unemployment rate was 2.5%, a 0.6pp decline y-o-y, with the number of workers increased by 91,000 to 8,319,000. In comparison with the Pre-COVID employment in 2019, Manufacturing reduced the headcounts by 290,000, while Technology increased the headcounts by 25.4% to 954,000, at a pace equivalent to an increase by 11.6% y-o-y. However, unlike past market cycles, we are yet to confirm an office space demand led by the ongoing Technology employment growth.

SUPPLY & DEMAND: Increasing Flight to Affordability means More Leasing Demand

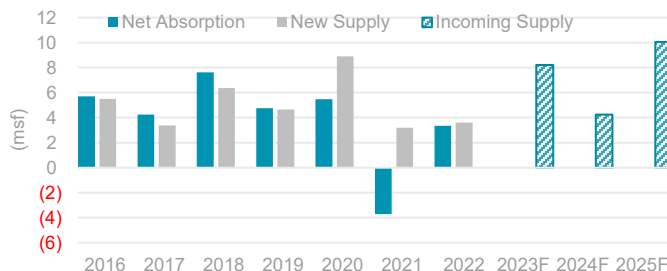
With a pause in new supply in Q4 2022, the Tokyo Central 5 Wards Grade A office vacancy rate was near flat, down 3bps y-o-y to 3.4%, with the availability rate declined by 11bps y-o-y to 6.3%. As illustrated in the center right graph on the next page, reported annual net absorption was negative across key industries. TMT and Financial Services led the floor reduction through their measured transition to hybrid office layout that incorporates more remote working. Conversely, since the onset of COVID-19, Manufacturing reported limited net floor reduction although their proportionally larger employment reduction than its peers.

Rental decline since the mid-2020 supported the leasing demand, bringing the annual leasing transaction volume closer to the pre-COVID19 level. Large-scale buildings also attracted more demand, with more tenants reaching out for high-quality buildings at lower rents.

PRICING: Tokyo's Leasing Markets in favor of Occupiers

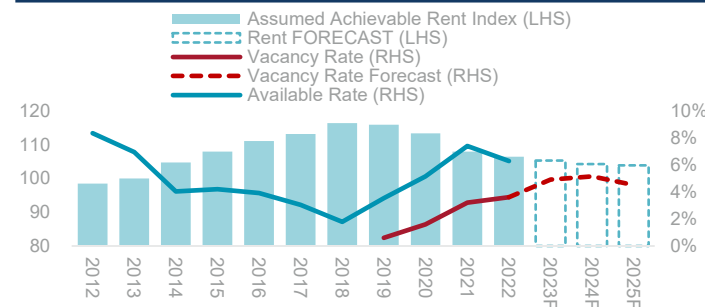
In Q4 2022, the Tokyo C5W Grade A average assumed achievable rent ("rent") continues to decline, down 1.3% y-o-y to ¥34,552. This marks a slowing decline than the previous quarter, down 2.5% y-o-y. However, with the rent decline exceeding that in the average asking rent (minus 1.0% y-o-y), the overall market remains in favor of occupiers. Incoming supply for 2023 is expected to triple from 2022, equivalent to doubling the past ten-year average new supply. At the quarter-end, the occupancy rate for new buildings within one year was 84.5%, and the pre-commitment rate of incoming supply was only 54.5% (see the graph at upper right).

NET ABSORPTION/ INCOMING SUPPLY



Source: Commercial Property Research Institute, Cushman & Wakefield

GRADE A OFFICE: VACANCY & RENT INDEX



Source: Cushman & Wakefield



By submarket, the trend of bifurcation continues. Top-tier buildings in urban centers maintain high pricing power by offering smaller leasing units and office-related services tailored to their tenants, keeping the asking rent above ¥40,000 (see the rent map in the last page). High-quality buildings in Shimbashi / Shiodome area attracted relocation demand through rent reduction, leading to the vacancy rate, down 12.8pp y-o-y to 1.3%. Outer bay areas, such as Harumi, saw the vacancy rates remain elevated at 12.6% although new entry of investment funds lifted the area's assumed achievable rent by 5.4pp y-o-y.

Investor Transactions: More Selective Acquisitions on the Rise

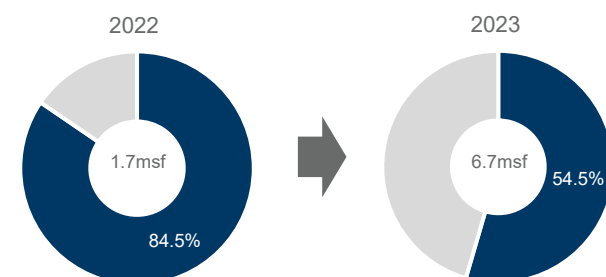
In 2022, the gross transaction volume decreased by 31.3% y-o-y, despite some large transactions reported toward the yearend. Overall, more investors put a pause in new transactions, with the cap rates for reported transactions drifting downward toward 3.0%. More selective acquisition criteria of foreign investors led to their share of annual transaction reduced to 12%. Similarly, headwinds from capital markets led to J-REIT reduced their share to 20%. With the downward fundamentals expected in office leasing market, investor's interests, with elevated cash positions, are increasingly restrained to a limited number of well-located high-quality buildings and/or few properties leaving value-add opportunities.

During the quarter, J-REITs, with rising cost-of-capital, increased its sales to institutional investors Japan Real Estate or JRE announced the sale of Harumi Front for ¥39.1 billion in three installed payments citing the area's deteriorating leasing fundamentals. The sales proceeds to be redirected mostly to retained earnings. Another J-REIT, Global One also sold its partial interest in Otemachi First Square for ¥27 billion in five installed payments citing their concerns for the office obsolescence. With reduced negative impacts from remote working in regional cities, the first sales proceeds to be redirected to office buildings in Nagoya and Sapporo.

Outlook

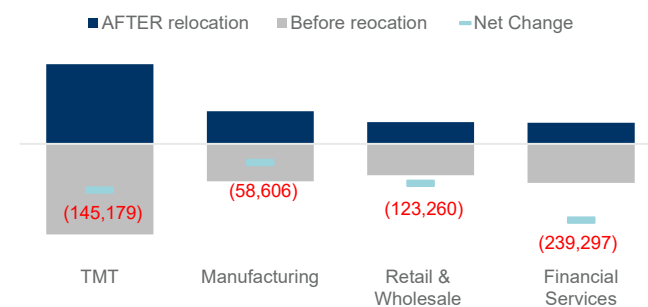
- **Expect rents on a downward trend:** With the macro headwinds, we expect the net effective rent to decline around 4% after absorbing new quality products over the next two years. With the current downward cycle to last beyond 2025, we recommend landlords to take a flexible leasing stance in a timely manner.
- **Expect vacancy rates on the rise:** With increased supply ahead, we expect vacancy increasing toward the mid-5% over the next two years. We recommend tenants to enforce a flexible relocation strategy leveraging the current market downcycle.
- **Reported cap rates remain low despite rising interest rates:** By the yearend, expect risk-free rate or 10year JGB yields increasing toward 75-90 bps after being repriced to 50bps from the bottom of minus 27bps recorded during 2019. We recommend investors to take more selective stance along with more explicit exit strategy for new acquisitions amid expected reduction in market liquidity.

PRE-COMMITMENT % OF INCOMING SUPPLY



Source: Cushman & Wakefield

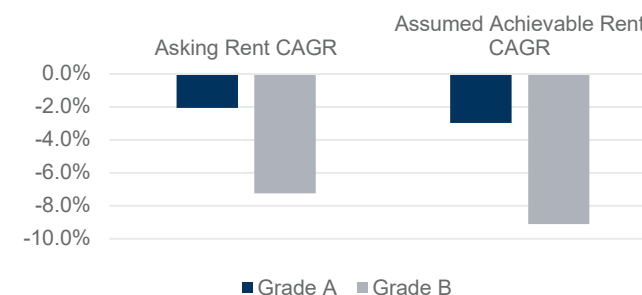
LEASING TRANSACTION VOLUME BY INDUSTRY (SF)



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

Source: Cushman & Wakefield

RENT CAGR SINCE COVID-19 (Q4 19/Q4 22)





KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	FORMER LOCATION	SUBMARKET	TENANT	INDUSTRY	RSF	RSF NET CHANGE	REASONS FOR RELOCATION
Gate City Osaki East Tower	Osaki / Gotanda	TOC Osaki Bldg 1-gokan	Osaki / Gotanda	Daiso Industries	Wholesale / Retail	30,566	12,774	Expansion/Increasing workforce
Tokyo Shiodome Building	Shinbashi / Shiodome	(owner-occupied building)	Hamamatsucho	Resonac (former Showa Denko and Showa Denko Materials)	Manufacturing	106,750	-	Location Strategy
A-PLACE Shinagawa Higashi	Shinagawa Konan Exit	Meguro Tokyu Building VPO Meguro	Meguro	Sony PCL	TMT	37,042	▲8,967	Location Strategy
-	-	Sumitomo Fudosan Iidabashi First Tower etc.	Iidabashi, etc.	KDDI	TMT	0	▲81,842	Remote work implementation
-	-	W Building	Shinagawa Konan Exit	ENEOS	Electricity/Gas/Heat supply/Water	0	▲53,375	Remote work implementation

Source: Nikkei Real Estate Market Report

KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	Cap rate	PRICE/ \$PSF
Otemachi First Square	Marunouchi / Otemachi	Global One REIT / Daibiru	Section) 99,598	2.6%	\$204M / \$2,335
Harumi Front	Harumi / Kachidoki	Japan Real Estate / BlackRock	489,306	3.9%	\$296M / \$824
fmr Yokohama Rubber HQ Bldg	Yokohama	(SPC funded by Asahi Kasei Realty & Residence, etc.) / Yuasa Trading	206,952	-	\$223M / \$1,079

Source: Real Capital Analytics (RCA), Press releases published on each corporate website

KEY PLANNED GRADE A OFFICE SUPPLY Q4 2022

PROPERTY	SUBMARKET	MAJOR TENANT	TYPICAL FLOOR AREA (SF)	ASSUMED GROSS FLOOR AREA (SF)	PLANNED COMPLETION	OWNER / DEVELOPER
Sumitomo Realty Shinjuku First Tower	Nishi-Shinjuku	Chudenko	21,492	415,222	March 2023	Sumitomo Realty & Development
Tokyo Mita Redevelopment Project	Mita / Tamachi	Kyocera / Unicharm	42,842	1,822,541	March 2023	Sumitomo Realty & Development
Tamachi Tower (TTM Project)	Mita / Tamachi	Mitsubishi Heavy Industries	28,004	934,809	May 2023	Mitsubishi Heavy Industries / Tamachi Building / Tokuei Corporation
Azabudai Hills Mori JP Tower	Toranomon / Kamiyacho	Deutsche Bank / Japan TATA Consultancy Services	52,094	3,310,990	July 2023	Mori Building / Japan Post
Toranomon Hills Station Tower	Toranomon / Kamiyacho	Panasonic Industry	35,512	2,566,552	July 2023	Mori Building / Urban Renaissance Agency / Oriental Maritime Industry
Shibuya Sakura Stage SHIBUYA Tower	Shibuya	Square Enix	29,961	1,989,178	November 2023	Tokyu Land

Source: Cushman & Wakefield



MARKET STATISTICS

SUBMARKET	NET LEASABLE AREA (SF)	OCCUPIED SPACE (SF)	AVAILABILITY RATE	VACANCY RATE		TTM NET ABSORPTION (SF)	TTM NEW SUPPLY (SF)	UNDER CNSTR TO BE SLATED WITHIN 1yr (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			
Marunouchi / Otemachi	21,080,010	20,616,249	4.9%	-0.7%	2.2%	-0.1%	21,080	0	0	\$9.42	-2.8%	\$8.70	-3.2%
Kyobashi / Yaesu / Nihonbashi	6,507,474	6,188,608	7.6%	4.2%	4.9%	2.9%	1,147,390	1,363,374	0	\$8.72	4.2%	\$8.08	2.7%
Shibuya	3,883,028	3,883,028	0.3%	-4.6%	0.0%	-0.3%	11,108	0	1,079,597	\$8.39	0.1%	\$7.81	3.1%
Toranomon / Kamiyacho	5,029,415	4,979,121	2.8%	0.2%	1.0%	-0.5%	25,147	0	3,320,032	\$8.19	0.4%	\$7.22	0.8%
Roppongi	7,304,504	6,910,061	8.9%	-1.7%	5.4%	-0.7%	51,132	0	0	\$8.17	1.0%	\$7.09	-1.0%
Akasaka	3,365,362	3,237,478	6.1%	1.5%	3.8%	2.1%	-70,673	0	0	\$7.00	-0.6%	\$6.48	-1.4%
Kasumigaseki / Uchisaiwaicho	3,540,147	3,490,585	2.9%	1.0%	1.4%	0.9%	-31,861	0	0	\$7.14	-3.5%	\$6.44	-4.4%
Shibaura / Kaigan	2,382,800	2,351,824	3.9%	0.9%	1.3%	0.2%	-4,766	0	0	\$6.68	-0.2%	\$6.12	-2.1%
Shimbashi / Shiodome	4,121,542	3,853,642	10.3%	-11.6%	6.5%	-12.8%	527,557	0	0	\$6.73	1.0%	\$5.99	-4.4%
Iidabashi / Kudan	1,939,432	1,935,553	0.2%	-3.2%	0.2%	0.2%	394,369	398,248	0	\$6.45	-1.7%	\$5.98	-0.1%
Hamamatsucho/ Onarimon	3,574,912	3,224,570	12.1%	-1.1%	9.8%	6.1%	-218,070	0	0	\$6.51	-2.4%	\$5.75	-6.0%
Shinagawa Konanguchi	4,843,314	4,712,545	3.5%	-3.0%	2.7%	-1.4%	67,806	0	0	\$6.28	-0.5%	\$5.68	-1.4%
Nishi-Shinjuku	3,334,191	3,274,175	5.2%	-4.8%	1.8%	-0.2%	6,668	0	322,562	\$5.87	-1.8%	\$5.36	0.8%
Mita / Tamachi	1,673,056	1,554,269	17.4%	6.9%	7.1%	-1.9%	31,788	0	1,929,914	\$6.05	-1.5%	\$5.30	-3.5%
Harumi / Kachidoki	3,027,498	2,646,034	31.7%	4.9%	12.6%	4.5%	-136,237	0	0	\$3.72	0.2%	\$3.27	5.4%
Central 5 Wards	95,343,602	92,101,920	6.3%	-1.1%	3.4%	-0.3%	1,975,799	1,761,622	6,652,106	\$7.56	-1.0%	\$6.88	-1.3%

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

Net Absorption

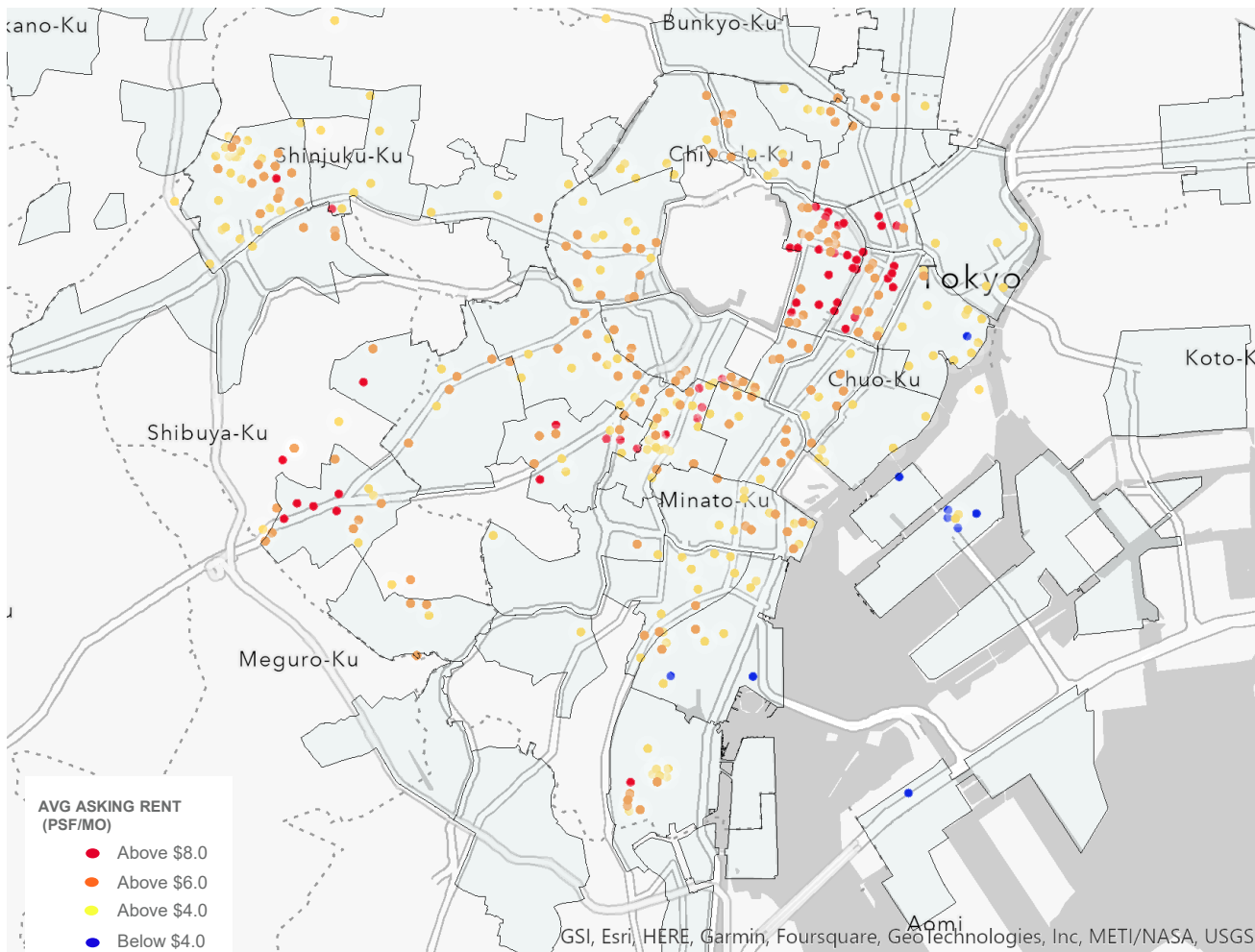
(Vacant space of previous quarter) + (Net Leasable Area of New supply provided during current quarter) – (Vacant Space of current quarter)

Exchange Rate

1USD = 141.2 JPY (quarterly average)



Tokyo Submarkets: Asking Rent Level as of Q4 2022



The scope of market survey / Office grade definition

Surveyed	Grade: Grade A / B Office in Central 5 Wards
	Number of Buildings: 202/332
Office Grade	Net Leasable Area: 95.3 msf / 52.4 msf
	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
Office Grade	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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