

MARKETBEAT TOKYO

Office Q1 2023



y-o-y
Chg

12-Mo.
Forecast

3.7 %

Vacancy Rate



2,748K

Net Absorption, SF



-1.1%

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 Q1 2023

y-o-y
Chg.

12-Mo.
Forecast

8.4M

Tokyo
Employment*



2.4%

Tokyo
Unemployment Rate*



2.4%

Japan
Unemployment Rate*



Source: Tokyo Metropolitan Government, MIC
*Average for Q4 2022

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

² Based on non-seasonally adjusted figures from October 2022 to December 2022.

ECONOMY: Tokyo's Employment Recovery Continues

Despite growth in advanced economies now expected to decelerate to 1.3% in 2023 and 1.4% in 2024, Japan's real GDP growth rate is forecast to remain steady at 1.1% in 2023 and 1.2% in 2024. Total employment in Tokyo has now grown by 450,000 since Q4 2019, while nationwide total employment has fallen by 300,000 over the same three-year period. By industry, the technology sector has gained 101,000 jobs, while manufacturing has lost 50,000 positions, both from the baseline figures of Q4 2019².

SUPPLY & DEMAND: Incoming Supply to Lift Vacancy Ahead

The Tokyo Central 5 Wards Grade A office vacancy rate remained near flat in Q1 2023 at 3.7%, up 3 bps y-o-y, with availability remaining at 6.9%. Annual net absorption was also positive at 2.7 million sf, although overall leasing demand remained tepid, tracking around 60% of the 10-year historical average recorded before COVID-19.

Over the next 12 months, new supply is expected to triple from the 2022 figure, at around 1.5 times higher than the 10-year historical average. With demand weaker, as demonstrated by commitment of just 54.8% at incoming supply and 24.7% for new buildings, we can expect supply to exceed demand, lifting vacancy in secondary buildings over the next two years.

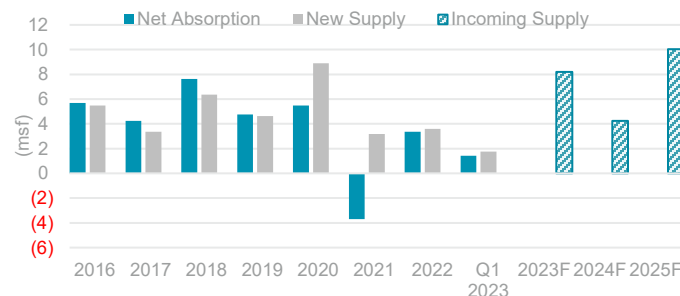
PRICING: Growing Rental Bifurcation Continues Across Major Submarkets

The Tokyo C5W Grade A average assumed achievable rent ("rent") continued to trend down in Q1 2023, down 1.1% y-o-y to record ¥34,327. With the rental fall outpacing the drop in asking rents, down 0.6% y-o-y, overall market conditions remain in favor of tenants.

By submarket, weaker activity in non-core districts, combined with the volume of new supply, lifted vacancy higher in the quarter. In the Mita/Tamachi area, entry of a new Grade A property with some launch availability lifted the submarket's overall vacancy to 31.4%, while also driving the area's rent up 5.9% y-o-y to ¥29,214. Conversely, in Shibuya and Nishi-Shinjuku, new entrants with launch availability pushed vacancy up just modestly to 2.9% and 1.2%, respectively.

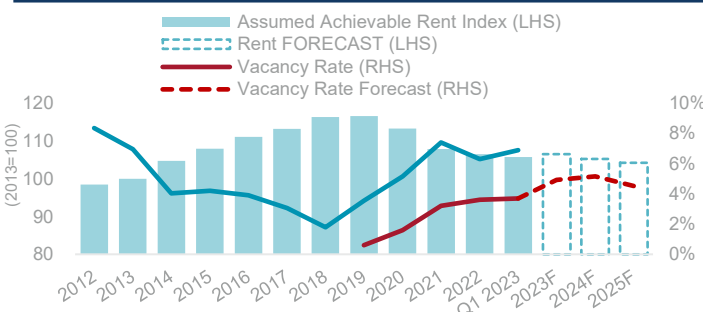
Growing rent level bifurcation among building grades continues as tenants seek a flight to quality. The Grade A office sector has now recorded a drop of 3.9% for asking rent and 4.8% for assumed achievable rent since Q4 2019. This compares to a greater fall for Grade B properties, posting a decline of 6.2% for asking rent and 8.1% for assumed achievable rent in the same period.

NET ABSORPTION/ INCOMING SUPPLY



Source: Commercial Property Research Institute, Cushman & Wakefield

GRADE A OFFICE: VACANCY & RENT INDEX



Source: Cushman & Wakefield



More generous incentives on offer toward the fiscal year end of March 2023, combined with lower rents, have boosted relocation numbers, bringing annual leasing volume closer to the pre-COVID19 level, down only 5% from the baseline figure. Major relocations saw large tenants upgrading to new properties, and with smaller footprints at higher rent levels. For example, ABeam Consulting relocated from a 3,100 tsubo space at the Marunouchi Eiraku Building to 2,400 tsubo at the Tokyo Midtown Yaesu. Floor reductions have also continued, prompted by remote working and more flexible office layouts and workstyles. Microsoft Japan and Mizuho Securities both returned office spaces of 1,000 tsubo or more during the quarter.

Investor Transactions: Corporate Sales and Repurposing to Non-office Use on the Rise

As of March 2023, gross annual transaction volume had declined 21.7% y-o-y, with transaction volume below ¥40 billion falling by 36.2% y-o-y. Overall, more investors paused new transactions, with cap rates for reported transactions trending down towards 3.0%. Headwinds in the capital markets led to J-REITs and foreign investors slashing transaction volumes by 58.5% and 33.0% y-o-y, respectively. With downward fundamentals expected in the office leasing market, investors' interest, with elevated cash positions, are increasingly restrained to a limited number of well-located high-quality assets and/or properties offering value-add opportunities.

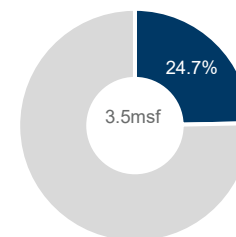
Corporate players were most active in the quarter. Toyota Motor sold its headquarters property to its real estate affiliates and Mitsui Fudosan, with the company intending to reduce its office footprint and generate rental income from the unused space. Elsewhere, Sekisui House REIT sold the Gotenyama SH office building for ¥70 billion yen to TIS, for use as a data center. In outer districts, such as Gotenyama, repurposing of office buildings has expanded as the area's office rental level has continued to fall well below the non-office rent over recent quarters.

Outlook

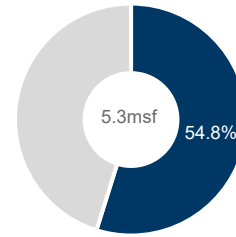
- **Expect rents to continue trending down:** With the macro headwinds, we expect the net effective rent to decline around 4% after absorbing new quality supply over the next two years. With the current downward cycle to last beyond 2025, we recommend landlords to adopt a flexible leasing strategy.
- **Expect vacancy rates to rise:** With greater supply ahead, we expect overall office vacancy to rise towards the mid-5% range over the next two years. We recommend tenants to implement a flexible relocation strategy to leverage the current market downcycle.
- **Reported cap rates to remain low despite rising interest rates:** By the year-end, we expect risk-free rate or 10-year JGB yields to rise to 50-75 bps, after being repriced to 68 bps at the quarter-end, from the bottom of minus 27 bps recorded during 2019. With stable market conditions in Japan, risk appetite started to return to the markets with some funds seeking more diversified opportunities for repurposing and refurbishing. We recommend investors to add selective positions in properties priced at a discount, subject to more stringent due diligence processes to accommodate an expected reduction in market liquidity ahead.

PRE-COMMITMENT % OF INCOMING SUPPLY

Apr.2022 – Mar. 2023

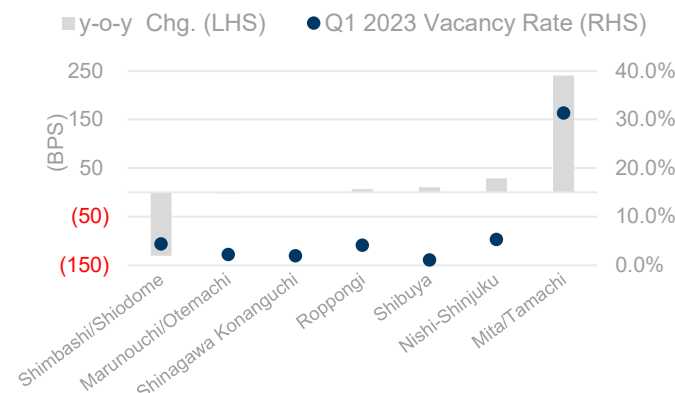


Apr.2023 – Mar. 2024



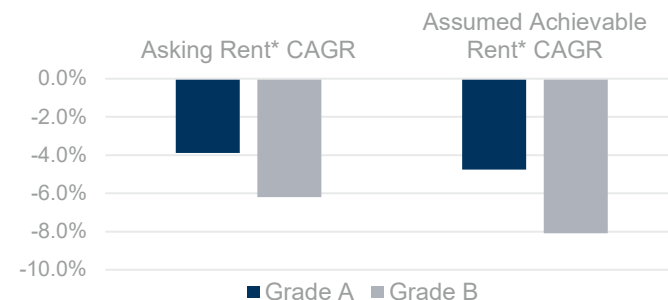
Source: Cushman & Wakefield

CHANGE OF VACANCY RATE OF MAIN SUBMARKETS



Source: Cushman & Wakefield

RENT CAGR SINCE COVID-19 (Q4 19 / Q1 23)



*Based on available area
Source: Cushman & Wakefield



KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	FORMER LOCATION	SUBMARKET	TENANT	INDUSTRY	RSF	REASONS FOR RELOCATION
Toranomon Hills Station Tower	Toranomon / Kamiyacho	Shibuya Solasta, Ginza Shochiku Square	Shibuya, Ginza	Carta Holdings (Dentsu group company)	TMT	106,750	Consolidation
Tokyo Midtown Yaesu Yaesu Central Tower	Kyobashi / Yaesu / Nihonbashi	Sumitomo Fudosan Shiba Koen First Bldg	Mita / Tamachi	Tosoh	Manufacturing	85,400	Location Upgrade
Tokyo Midtown Yaesu Yaesu Central Tower	Kyobashi / Yaesu / Nihonbashi	Marunouchi Eiraku Bldg	Marunouchi / Otemachi	ABeam Consulting	Professional Services	85,400	(Undisclosed)
-	-	Shinagawa Grand Central Tower	Shinagawa Konanguchi	Japan Microsoft	TMT	Partial Termination (▲124,542)	(Undisclosed)
-	-	Mita NN Bldg	Mita / Tamachi	Mizuho Securities	Financial Services	Partial Termination (▲53,375)	(Undisclosed)

Source: Nikkei Real Estate Market Report

KEY SALES TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	Cap rate	PRICE/ \$PSF
Odakyu Dai-Ichi Seimei Bldg	Nishi-Shinjuku	Odakyu Electric Railway / (A company founded by Dai-Ichi Life Holdings, etc.)	Section) 755,859	-	\$537M / \$1,129
Gotenyama SH Bldg	Osaki / Gotanda	Sekisui House REIT / TIS	213,264	2.9%	\$530M / \$2,461
Toyota Tokyo Bldg	Bunkyo / Koraku / Yushima / Hongo	Toyota Motor / Toyota Fudosan, Mitsui Fudosan	5,295,898	-	-

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

KEY PLANNED GRADE A OFFICE SUPPLY Q1 2023

PROPERTY	SUBMARKET	MAJOR TENANT	TYPICAL FLOOR AREA (SF)	ASSUMED GROSS FLOOR AREA (SF)	PLANNED COMPLETION	OWNER / DEVELOPER
Tamachi Tower (TTM Project)	Mita / Tamachi	Mitsubishi Heavy Industries	28,004	934,809	Jun-23	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	Jul-23	Mori Building / Japan Post
Toranomon Hills Station Tower	Toranomon / Kamiyacho	Panasonic Industry	35,512	2,566,552	Jul-23	Mori Building / Urban Renaissance Agency / Oriental Maritime Industry
Shibuya Sakura Stage SHIBUYA Tower	Shibuya	Square Enix	29,961	1,989,178	Nov-23	Tokyu Land
Shintora Yasuda Bldg	Shimbashi / Shiodome	Mortgage Service Japan	14,241	277,924	Feb-24	Yasuda Real Estate
Sumitomo Fudosan Shinjuku Minamiguchi Bldg	Yoyogi / Sendagaya / Minami-Shinjuku	-	11,397	258,127	Mar-24	Sumitomo Realty & Development

Source: Cushman & Wakefield



MARKET STATISTICS

SUBMARKET	NET LEASABLE AREA (SF)	OCCUPIED SPACE (SF)	AVAILABILITY RATE	Y-O-Y		VACANCY RATE	Y-O-Y		LTM NET ABSORPTION (SF)	LTM NEW SUPPLY (SF)	UNDER CONSTRUCTION TO BE COMPLETED WITHIN 1yr (SF)	AVG ASKING RENT IN USD (PSF/Yr)	Y-O-Y		AVG ASSUMED ACHIEVABLE RENT IN USD (PSF/Yr)	Y-O-Y	
Marunouchi / Otemachi	21,080,010	20,613,647	4.5%	-0.5%		2.2%	-0.2%		42,401	0	0	\$119.65	-1.3%		\$110.46	-2.9%	
Kyobashi / Yaesu / Nihonbashi	6,507,474	6,375,913	5.4%	3.7%		2.0%	1.3%		1,268,907	1,363,374	0	\$111.65	4.2%		\$101.94	1.5%	
Shibuya	4,030,342	3,987,541	3.6%	3.3%		1.1%	1.1%		104,533	147,334	1,079,597	\$106.37	-0.9%		\$98.83	2.1%	
Toranomon / Kamiyacho	5,029,415	4,976,225	3.9%	1.6%		1.1%	-0.1%		3,208	0	3,320,032	\$103.71	-1.5%		\$90.93	-1.4%	
Roppongi	7,304,504	7,002,121	9.1%	-1.1%		4.1%	0.6%		-45,912	0	0	\$104.36	0.9%		\$90.69	-0.6%	
Akasaka	3,365,362	3,234,596	6.0%	-4.3%		3.9%	2.5%		-84,536	0	0	\$89.65	0.0%		\$83.66	0.8%	
Kasumigaseki / Uchisaiwaicho	3,540,147	3,478,243	1.9%	-1.2%		1.7%	1.1%		-37,970	0	0	\$91.41	-1.7%		\$82.48	-0.9%	
Shibaura / Kaigan	2,382,800	2,357,261	8.6%	5.8%		1.1%	0.0%		779	0	0	\$85.48	0.6%		\$78.15	-2.1%	
Shimbashi / Shiodome	4,121,542	3,940,305	7.3%	-12.8%		4.4%	-13.1%		539,151	0	170,890	\$84.42	-0.7%		\$76.04	-2.2%	
Hamamatsucho/ Onarimon	3,574,912	3,436,197	5.8%	-5.8%		3.9%	0.2%		-8,168	0	0	\$82.56	-0.9%		\$75.28	-0.6%	
Mita / Tamachi	2,968,466	2,037,827	36.7%	27.9%		31.4%	24.1%		486,874	1,295,412	634,503	\$83.83	6.6%		\$74.44	5.9%	
Iidabashi / Kudan	2,185,313	2,167,878	0.8%	-6.2%		0.8%	-2.3%		435,804	398,248	0	\$80.44	0.0%		\$74.27	0.6%	
Shinagawa Konanguchi	4,843,314	4,747,946	5.5%	0.7%		2.0%	0.0%		1,543	0	0	\$80.40	0.0%		\$71.77	-1.3%	
Nishi-Shinjuku	3,658,390	3,463,651	13.3%	3.4%		5.3%	2.9%		210,821	324,187	0	\$74.04	-2.7%		\$68.01	0.3%	
Harumi / Kachidoki	3,202,177	2,799,620	28.4%	0.0%		12.6%	4.2%		-135,829	0	0	\$47.91	1.3%		\$41.66	5.1%	
Central 5 Wards	97,110,526	93,522,508	6.9%	0.0%		3.7%	0.7%		2,747,996	3,528,555	5,349,381	\$96.06	-0.6%		\$87.46	-1.1%	

(Local unit/currency)

	NET LEASABLE AREA	OCCUPIED SPACE	AVG ASKING RENT IN JPY		AVG ASSUMED ACHIEVABLE RENT IN JPY	
	(Tsubo)	(Tsubo)	(Tsubo/Mo)	Y-O-Y	(Tsubo/Mo)	Y-O-Y
Central 5 Wards	2,729,104	2,628,270	¥37,701	-0.6%	¥34,327	-1.1%

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

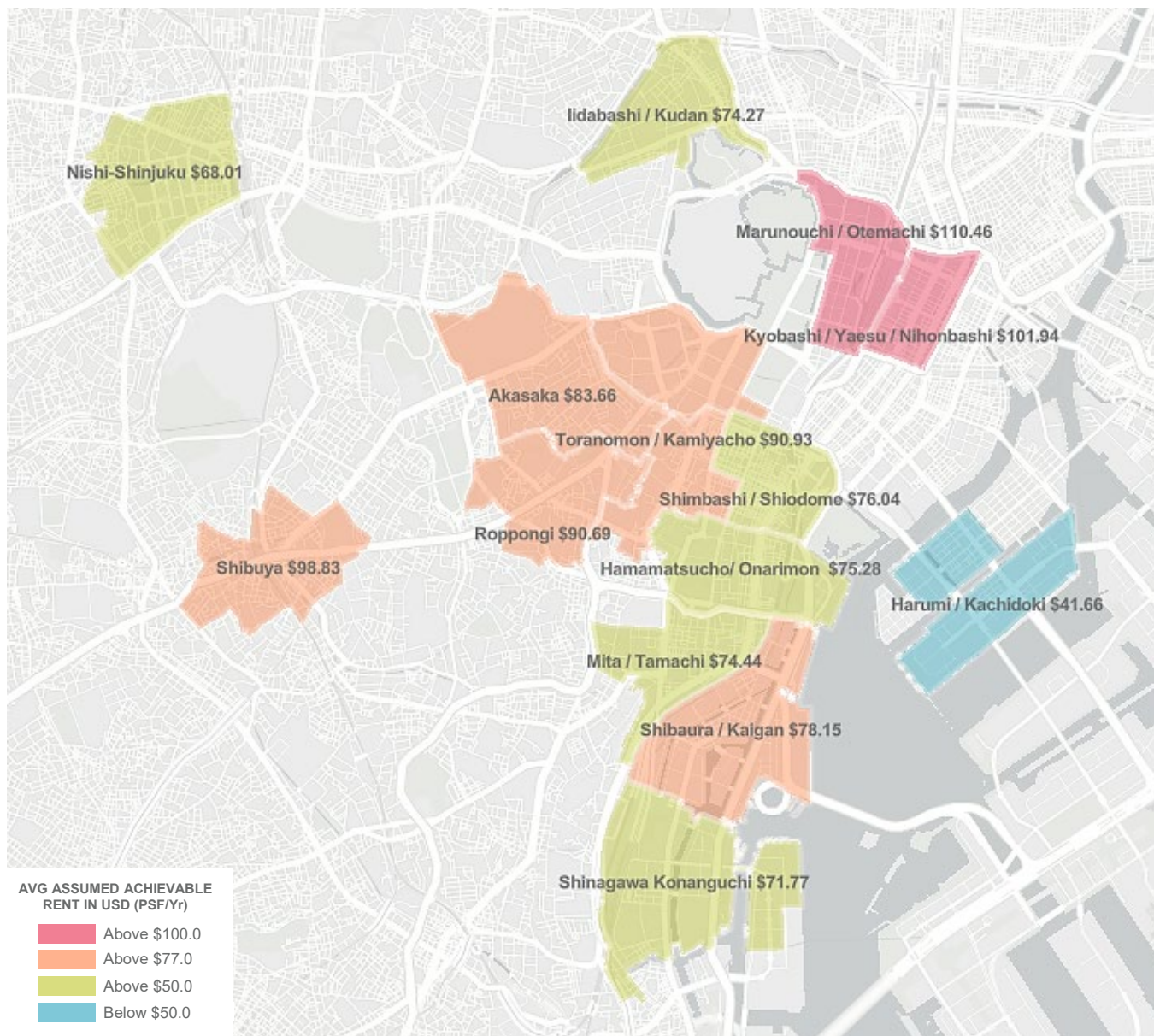
(Vacant space of previous quarter) + (Net Leasable Area of New supply provided during current quarter) - (Vacant Space of current quarter)

Exchange Rate

1USD = 132.4 JPY (quarterly average)



Tokyo Submarkets: Assumed Achievable Rent by Primary Submarket as of Q1 2023



The scope of market survey / Office grade definition

Surveyed	Grade: Grade A / B Office in Central 5 Wards
	Number of Buildings: 205/333
Office Grade	Net Leasable Area: 97.1 msf / 52.8 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

CONTACTS:

Keiji Kato

Senior Director, Head of Leasing Advisory Group

Tel: +81 3 3596 7865

keiji.kato@cushwake.com

Manami Chisaki

Director, Head of Tenant Advisory Group

Tel: +81 3 3596 7077

manami.chisaki@cushwake.com

Author:

Mari Kumagai

Head of Research & Consulting

Tel: +81 3 6625 3727

mari.kumagai@cushwake.com

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 52,000 employees in over 400 offices and approximately 60 countries. In 2022, the firm had revenue of \$10.1 billion across core services of property, facilities and project management, leasing, capital markets, and valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2023 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.

cushmanwakefield.com