

# MARKETBEAT TOKYO

Office Q2 2023



y-o-y  
Chg

12-Mo.  
Forecast

**4.5 %**  
Vacancy Rate



**5,043K**  
Net Absorption, SF



**-1.0%**  
Rent (y-o-y)



Average for Grade A Office buildings in Central 5W  
"Rent" refers to the average assumed achievable rent<sup>1</sup>  
unless otherwise noted

## ECONOMIC INDICATORS Q2 2023

y-o-y  
Chg.

12-Mo.  
Forecast

**8.3M**  
Tokyo  
Employment\*



**2.6%**  
Tokyo  
Unemployment Rate\*



**2.6%**  
Japan  
Unemployment Rate\*



Source: Tokyo Metropolitan Government, MIC  
\*Average for Q1 2023

<sup>1</sup> JPY rents are quoted per tsubo per month unless otherwise noted  
<sup>2</sup> Based on non-seasonally adjusted figures from January 2023 to March 2023.

## ECONOMY: Tokyo's Employment Recovery Continues

Advanced economies are expected to see a pronounced growth slowdown. A series of policy actions from the FRB and ECB are likely to cut the expected real GDP growth rate in both regions to below 1 % in 2024. However, Japan's real GDP growth is projected to remain stable at 1.1% in 2023 and 1.3% in 2024. Positively, Tokyo's employment figure continues to improve. While nationwide total employment has slightly increased by 280,000, total employment in Tokyo has grown by 230,000 since Q1 2019. By industry, the technology sector has gained 120,000 jobs, while manufacturing has lost 10,000 positions, both from the baseline figures as of Q1 2019<sup>2</sup>.

## SUPPLY & DEMAND: Incoming Large Supply in This Quarter Lifts Vacancy despite Stable Demand

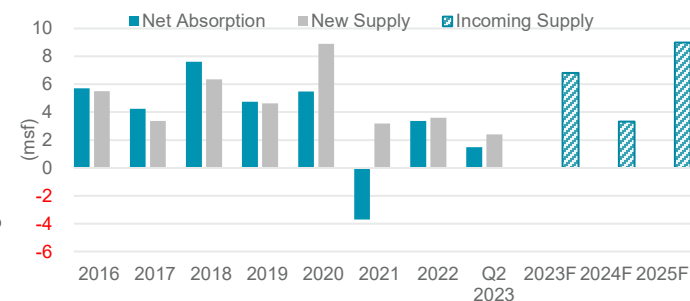
The Tokyo Central 5 Wards Grade A office vacancy rate increased 1.1 pp y-o-y to 4.5%, with the availability rate edging up 0.4 pp y-o-y to record 7.3% in Q2 2023. The rise in vacancy results from the entry of new buildings in Mita and Toranomon. After adjusting for the vacancy stemming from the new supply, vacancy in existing buildings remains near flat, up just 0.4 pp y-o-y to 3.9%. Similarly, annual net absorption is below the rate of employment growth, but was positive, tracking 5% above the 10-year historical average.

Occupancy at new buildings also rose to 66.6%, as some landlords choose to fill vacancy by offering flexible rental terms in response to the ample supply. Ahead, following the addition of Azabudai Hills, remaining new annual supply in 2023 will tighten, falling to 80% of the 10-year historical average. However, incoming new supply in 2025 is scheduled to double from the 10-year historical average, leading to some delay in tenant relocation decisions. Despite continued floor reductions reflecting hybrid work styles, we expect the overall scale of floor reduction to remain quite insignificant. In the Tokyo C5Ws, the in-office worker attendance rate has already recovered to 80% of the baseline recorded in 2019.

## PRICING: By Building Age Group, the Most Severe Rental Erosion Reported in 1990's Properties

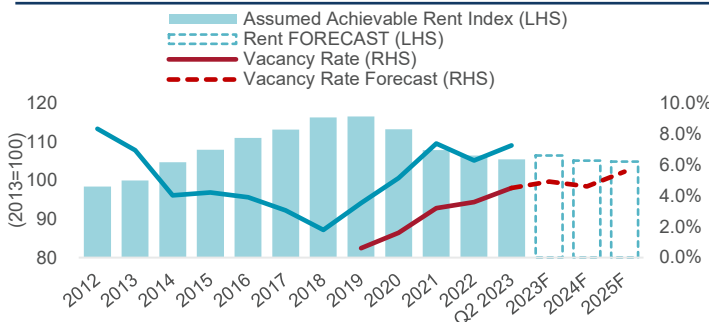
The Tokyo C5W Grade A average assumed achievable rent ("rent") softened by 1.0% y-o-y in Q2 2023 to record ¥34,234. With the rental fall outpacing the drop in asking rents, down 0.6% y-o-y, overall market conditions remain in favor of tenants. Building age is now an important factor determining rental performance. Against the baseline figures in Q4 2019, office properties aged 21 years or more have recorded the poorest rental performance. Consequently, by building age, 1990s properties suffer the most severe rental erosion, and these represent approximately 30% of the total vacant area in the Tokyo 23 wards.

## NET ABSORPTION/ INCOMING SUPPLY



Source: Commercial Property Research Institute, Cushman & Wakefield

## GRADE A OFFICE: VACANCY & RENT INDEX



Source: Cushman & Wakefield



The growing new supply is expanding available leasing options for tenants, in turn prompting many to review the status of their existing lease contracts. Quarterly leasing transaction volume reached 256,945 tsubo in Q2, tracking 34% above the 10-year historical average<sup>1</sup>. Tenant demand is also shifting to mid/ small-sized leases, at less than 500 tsubo. By tenant mix, international financial corporations are expanding their footprint to support a growing presence in Japan. With their willingness to pay top rent, we expect a high concentration of financial service tenants in Marunouchi / Otemachi will likely strengthen the area's pricing power over the rest of the market.

### Investor Transactions: More Institutional Investors Choose to Pause New Transactions

As of June 2023, gross annual office transaction volume had declined 28.8% y-o-y. Excluding large transactions at above ¥40 billion, volume declined further, by 34.8% y-o-y. By investor type, overseas investors reduced transactions by 68.9% y-o-y, followed with institutional investors by 55.1% y-o-y. With downward fundamentals expected in office leasing markets, investors' interests are generally constrained to a limited number of well-located prime assets with sufficient value-add opportunities. Overall, more investors paused new transactions, while cap rates for reported transactions were unchanged at around 3.0%.

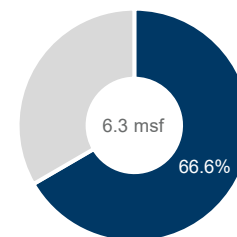
Investors also sought smaller transactions at less than ¥10 billion, and/or well-located prime assets built after 2019. Roadster Capital acquired the Circles Nibancho building from Mitsubishi Estate, marking the largest acquisition for the firm established in 2012. They have doubled their AUM over the past 12 months thanks to tailwinds from their seed-stage business.

## Outlook

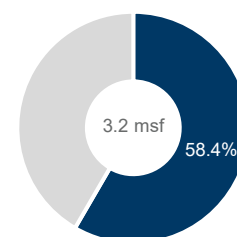
- **Expect effective rents to continue trending down:** With increasing supply, we expect the net effective rent to decline around 4% on real terms over the next two years. This translates into near-flat rent movement with the current inflationary outlook, prompting more landlords to adopt a flexible leasing strategy.
- **Expect vacancy rates to rise:** With incoming supply exceeding existing demand, we expect Tokyo C5W Grade A office vacancy to rise towards the mid-5% range over the next two years, keeping tenants in favor throughout the market downcycle.
- **Reported cap rates to remain too low despite rising interest rates:** By the yearend, we expect the new BoJ governor Ueda to start phasing out YCC, lifting the 10-year JGB yields from 43bps at the quarter end, to around 80 bps, equivalent to a neutral interest rate level assuming the current low economic growth rate. However, unsynchronized interest rate policy setting across major central banks may result in yen weakness, with a possible 150 yen per U.S. dollar in sight. We recommend investors to apply more stringent due diligence standards to accommodate an expected reduction in market liquidity ahead.

### PRE-COMMITMENT % OF INCOMING SUPPLY

Jul. 2022 – Jun. 2023 New buildings

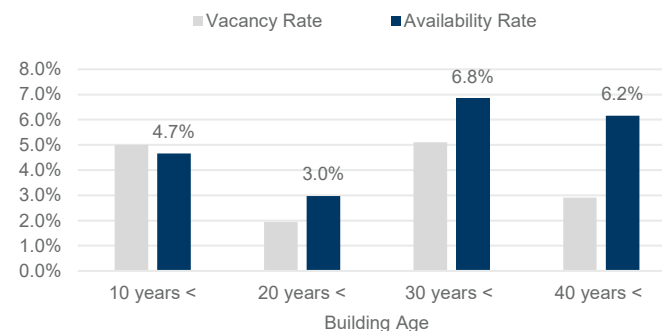


Jul. 2023 – Jun. 2024 Incoming Supply



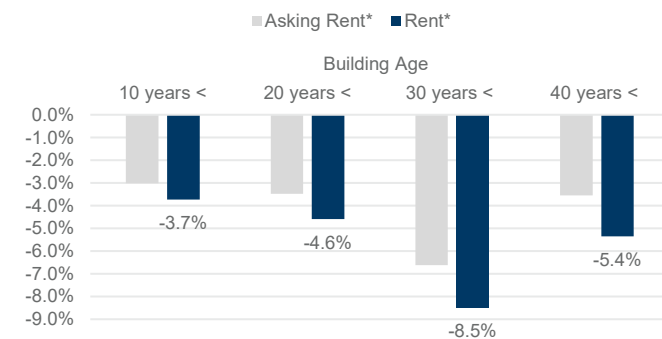
Source: Cushman & Wakefield

### CHANGE OF VACANCY/AVAILABILITY RATE (Q4 19 / Q2 23)



Source: Cushman & Wakefield

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



\*Based on available area  
Source: Cushman & Wakefield

<sup>1</sup>Source: Sanko Estate as of July 2023





## MARKET STATISTICS

SUBMARKET	NET LEASABLE AREA (SF)	OCCUPIED SPACE (SF)	AVAILABILITY RATE	VACANCY RATE		LTM NET ABSORPTION (SF)	LTM NEW SUPPLY (SF)	UNDER CONSTRUCTION TO BE COMPLETED WITHIN 1yr (SF)	AVG ASKING RENT IN USD (PSF/Yr)		AVG ASSUMED ACHIEVABLE RENT IN USD (PSF/Yr)		
				Y-O-Y	Y-O-Y				Y-O-Y	Y-O-Y			
Marunouchi / Otemachi	21,080,010	20,637,329	4.5%	-0.6%	2.1%	-1.1%	239,378	0	0	\$115.53	-0.5%	\$106.91	-2.5%
Kyobashi / Yaesu / Nihonbashi	6,507,474	6,331,772	5.5%	1.5%	2.7%	1.6%	1,244,626	1,363,374	0	\$104.88	3.4%	\$97.71	3.6%
Shibuya	4,030,342	3,953,766	2.4%	1.7%	1.9%	1.9%	70,757	147,334	1,348,156	\$102.04	-1.2%	\$94.96	-0.2%
Roppongi	7,304,504	7,070,760	6.5%	-2.9%	3.2%	-0.1%	6,032	0	0	\$97.82	-2.8%	\$86.07	-4.1%
Toranomon / Kamiyacho	7,197,719	6,139,654	16.4%	14.1%	14.7%	13.8%	1,157,894	2,168,290	1,151,742	\$96.91	-4.4%	\$86.03	-5.2%
Akasaka	3,365,362	3,224,017	4.8%	-4.5%	4.2%	2.5%	-83,950	0	380,172	\$85.22	-1.5%	\$79.45	-0.7%
Kasumigaseki / Uchisaiwaicho	3,540,147	3,490,585	1.4%	-2.9%	1.4%	-0.8%	29,168	0	0	\$87.99	-0.7%	\$79.39	-0.2%
Shimbashi / Shiodome	4,121,542	3,944,316	6.1%	-10.3%	4.3%	-10.6%	435,178	0	170,890	\$83.16	1.6%	\$74.22	1.4%
Shibaura / Kaigan	2,382,800	2,332,761	12.4%	10.2%	2.1%	1.5%	-34,790	0	0	\$82.90	1.8%	\$73.55	2.6%
Hamamatsucho/ Onarimon	3,574,912	3,481,964	4.5%	-6.8%	2.6%	-1.1%	40,504	0	0	\$79.11	-1.4%	\$72.46	0.4%
Iidabashi / Kudan	2,185,313	2,167,830	0.8%	-3.5%	0.8%	-0.2%	399,382	398,248	0	\$77.43	3.4%	\$72.39	3.8%
Mita / Tamachi	3,602,951	2,709,419	27.9%	17.1%	24.8%	17.9%	1,152,148	1,929,914	0	\$76.94	2.2%	\$69.33	3.8%
Shinagawa Konanguchi	4,843,314	4,780,351	4.7%	1.5%	1.3%	-0.6%	30,876	0	0	\$75.12	-2.9%	\$68.22	-2.7%
Nishi-Shinjuku	3,658,390	3,475,471	13.3%	3.8%	5.0%	1.6%	254,685	324,187	0	\$70.80	-3.4%	\$66.61	4.6%
Harumi / Kachidoki	3,202,177	2,789,096	28.1%	-3.6%	12.9%	2.5%	-78,955	0	0	\$46.12	3.6%	\$39.87	3.8%
Central 5 Wards	99,913,316	95,398,620	7.3%	0.4%	4.5%	1.1%	5,042,874	6,331,347	3,199,081	\$91.97	-0.6%	\$83.96	-1.0%

(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
<b>Central 5 Wards</b>	2,807,871	2,680,994	¥37,499	-0.6%	¥34,234	-1.0%

**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 = 137.5 JPY (quarterly average)

Source: Cushman &amp; Wakefield



## KEY LEASE TRANSACTIONS Q2 2023

TENANT	INDUSTRY	PROPERTY	SUBMARKET	FORMER LOCATION	SUBMARKET	RSF	REASONS FOR RELOCATION
KDDI Group	TMT	Takanawa Gateway City Complex Building I North Tower	Shinagawa Konanguchi	Garden Air Tower, etc.	Iidabashi / Kudan, etc.	1,014,124	Consolidation
FUJIFILM Business Innovation	Manufacturing	Sumitomo Fudosan Shinjuku First Tower	Nishi-Shinjuku	Nakano Sakaue Sunbright Twin	Nakano	170,800	Location Upgrade
Honda Motor	Manufacturing	T-2 Project	Toranomon / Kamiyacho	Honda Aoyama Building (Company Owned)	Aoyama / Omotesando	142,333	Demolition
Mitsubishi UFJ Trust and Banking/ Mitsubishi UFJ Kokusai Asset Management /MU Investments	Financial Services	Tokyo Shiodome Bldg	Shimbashi / Shiodome	Mitsubishi UFJ Trust and Banking HQ Bldg, Shin Yurakucho Bldg, Hulic Ochanomizu Bldg	Marunouchi/Otemachi, Hibiya/Yurakucho, Ochanomizu	106,750	Consolidation

Source: Nikkei Real Estate Market Report

## KEY SALES TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	Cap rate	PRICE/ \$PSF
Circles Nibancho	Bancho / Kojimachi	Mitsubishi Estate / Loadstar Capital	53,793	-	-
BIZCORE Tsukiji	Tsukiji	Nippon Steel Kowa Real Estate / Japan Excellent REIT	72,424	3.6%	\$71M / \$1,371
Hamamatsucho PREX	Hamamatsucho/ Onarimon	SMFL Mirai Partners, Sumitomo Corp / LaSalle Investment Management	26,228	-	-

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

## KEY PLANNED GRADE A OFFICE SUPPLY Q2 2023

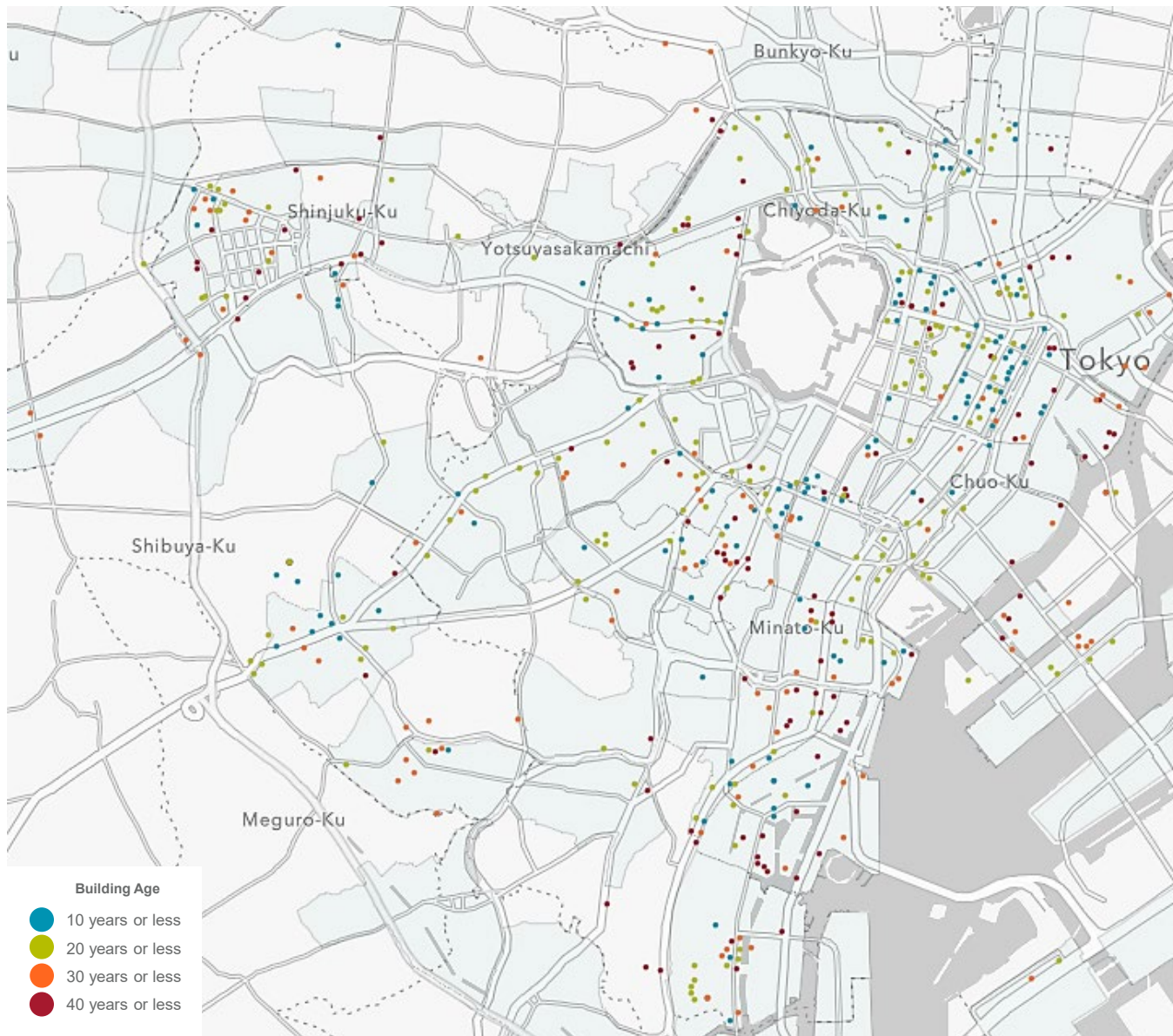
PROPERTY	SUBMARKET	MAJOR TENANT	TYPICAL FLOOR AREA (SF)	ASSUMED GROSS FLOOR AREA (SF)	PLANNED COMPLETION	OWNER / DEVELOPER
Toranomon Hills Station Tower	Toranomon / Kamiyacho	Panasonic Industry	14,241	2,566,552	Jul-23	Mori Building / Urban Renaissance Agency / Oriental Maritime Industry
Shibuya Sakura Stage SHIBUYA Tower	Shibuya	Square Enix	11,397	1,989,178	Nov-23	Tokyu Land
Akasaka Green Cross	Akasaka	-	19,001	796,356	May-24	Nippon Life Insurance / Sekisui House
Akasaka Trust Tower	Akasaka	-	35,583	1,512,109	Aug-24	Mori Trust
TODA BUILDING	Kyobashi / Yaesu / Nihonbashi	Cosmo Energy Holdings	25,656	1,020,423	Sep-24	Toda
T-2 Project	Toranomon / Kamiyacho	Honda Motor	37,522	778,015	Feb-25	Nippon Steel Kowa Real Estate / Daichi Life Insurance
Shibaura 1-chome Project Tower S	Shibaura / Kaigan	-	55,368	2,959,356	Feb-25	East Japan Railway / Nomura Real Estate Development

Source: Cushman &amp; Wakefield





## Tokyo Submarkets: Building Age as of Q2 2023



Source: GSI, Esri, HERE, Garmin, Foursquare, GeoTechnologies, Inc, METI/NASA, USGS, Cushman &amp; Wakefield

## The scope of market survey / Office grade definition

Surveyed	Grade: Grade A / B Office in Central 5 Wards
	Number of Buildings: 207/333
Office Grade	Net Leasable Area: 99.9 msf / 52.7 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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