

MARKETBEAT TOKYO

Office Q3 2023



y-o-y
Chg

12-Mo.
Forecast

5.1%
Vacancy Rate



4,762K
Net Absorption, SF



-0.7%
Rent (y-o-y)



Average for Grade A Office buildings in Central 5W
"Rent" refers to the average assumed achievable rent¹
unless otherwise noted

ECONOMIC INDICATORS Q3 2023

y-o-y
Chg.

12-Mo.
Forecast

8.4M
Tokyo
Employment*



2.6%
Tokyo
Unemployment Rate*



2.6%
Japan
Unemployment Rate**



Source: Tokyo Metropolitan Government, MIC

*Average for Q2 2023

**As of June 2023

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

² Consensus forecast, JCER

³ Based on publicly announced information and Nikkei real estate .

ECONOMY: Tokyo's Employment Recovery Continues, Adding 270,000 Jobs in Past Four Years

Higher interest rates for a longer period combined with elevated geopolitical tensions are expected to aggravate the likelihood of global stagnation at least through the first half of 2024. Despite an expected uplift to the real GDP growth rate towards 2% in 2023², Japan's economic growth is projected to fall to less than 1% in 2024, hobbled by the delayed effects of a global slowdown along with lackluster recovery in key exports such as semiconductors. More positively, Tokyo's employment figure continues to improve. While nationwide total employment has slightly increased by 280,000 over the past four years, Tokyo's total employment has grown by 270,000 over the past four years. By industry, the technology sector has gained 231,000 jobs, while the wholesale and retail trade has lost 10,000 positions, both from the baseline figures as of Q2 2019.

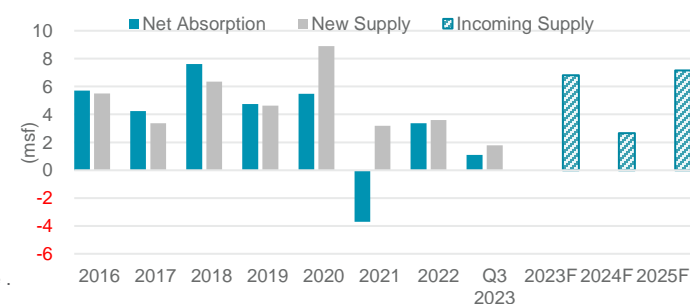
SUPPLY & DEMAND: Modest Vacancy Uptick Attributed to Submarkets With Ample Supply

The Tokyo Central 5 Wards Grade A office vacancy rate increased 0.7 pp y-o-y in Q3 to record 5.1%, with the availability rate remaining flat at 7.1%. Excluding the impact of new office entrants in the past 12 months, vacancy at existing stock declined by 1.1 pp y-o-y to 3.4%. Tokyo's office attendance rate remains stable, at around 70% of the baseline recorded in 2019. In turn, tenant demand for new or renovated properties has stiffened, with notable growth in client inquiries. While we alert on delayed negative impacts from large new entrants, the overall net absorption trend remains stable, limiting an expected uptick of the overall vacancy rate at a modest level. Occupancy was at 63.1% for newly completed buildings in Q3 (NLA:5.6msf) and projected at 43.5% for incoming projects within the next twelve months (NLA: 3.5 msf). Some landlords are now choosing to pursue higher rents over prolonged vacancy, but most still prioritize full vacancy by offering flexible rental terms in response to the ample supply. Ahead, incoming supply is scheduled to double from the 10-year historical average in 2025, leading to probable delays in tenant relocation decisions.

PRICING: Lower Rent Pricing Ensures Minimal Vacancy Rise Across Grade A/B Properties

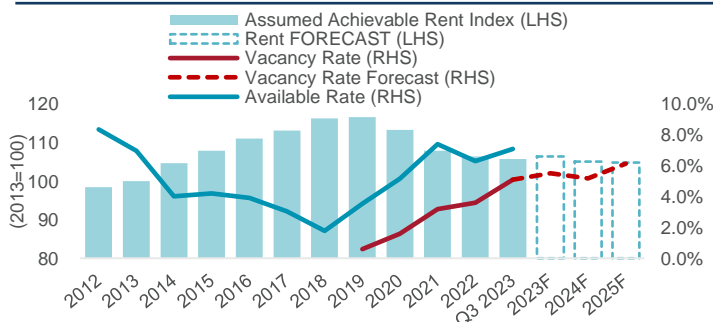
The Tokyo C5W Grade A average assumed achievable rent ("rent") softened by 0.7% y-o-y in Q3 2023 to record ¥34,335, with a corresponding decline in asking rent, down 0.9% y-o-y. We believe the pace of the rental fall bottomed in 3Q 2021, when the assumed achievable rent fell by 4.7% y-o-y and the asking rent by 4.0% y-o-y. We expect delayed downward rental pressures to fill vacancies in existing buildings to increase, following tenant relocations to newer Grade A properties, but the negative impact in relation to the Grade A office inventory of 2.8 million tsubo, is likely to be limited. Given the pricing adjustments required in transitioning into the first inflationary environment since 1990, we expect near-flat rental movements at least until the end of 2024.

NET ABSORPTION/ INCOMING SUPPLY



Source: Commercial Property Research Institute, Cushman & Wakefield

GRADE A OFFICE: VACANCY & RENT INDEX



Source: Cushman & Wakefield



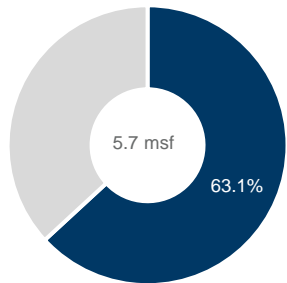
Office attendance rates are higher for smaller companies. The latest Tokyo metropolitan government survey finds the remote work implementation rate to be 45.2%, down from the peak of 65.0% in August 2021. Small company offices with less than 100 employees have seen a faster return-to-office movement, with the remote work rate now at 39.5% from a peak of 59.0%. Similarly, the proportion of employers enabling remote work for more than three days per week has dropped from 51.6% to 44.4%. As part of return-to-office initiatives to boost office attendance rates, more employers are prioritizing higher-quality premises in superior locations with smaller footprints to help attract and retain talent. Many leasing transactions in Q3 saw smaller floor size of transactions, enabling relocation into higher grade buildings in more central locations. Large corporations mainly opted to reduce or consolidate multiple office locations, while SMEs continue to report limited cases of floor expansion (see key transactions table on page 4).

Outlook

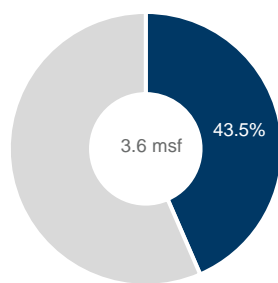
- **Expect effective rents to continue trending down.** With increasing supply, we expect the net effective rent to decline around 4% on real terms over the next two years. This translates into near-flat rent movement with the current inflationary outlook, prompting more landlords to adopt a flexible 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, maintaining a tenant-favorable environment throughout the market downcycle.

PRE-COMMITMENT % OF NEW BUILDINGS AND INCOMING SUPPLY

Oct. 2022 – Sep. 2023 New buildings

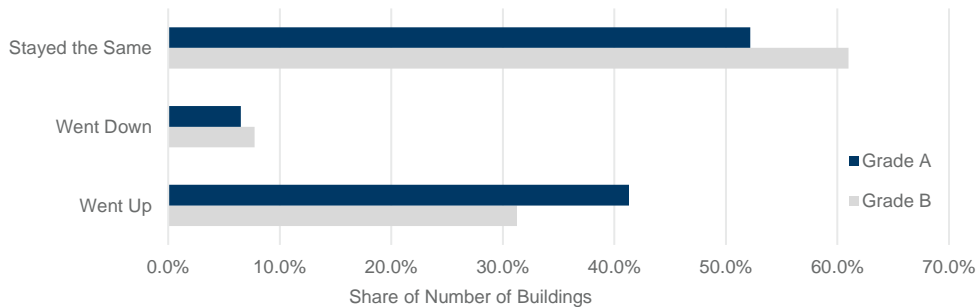


Oct. 2023 – Sep. 2024 Incoming Supply



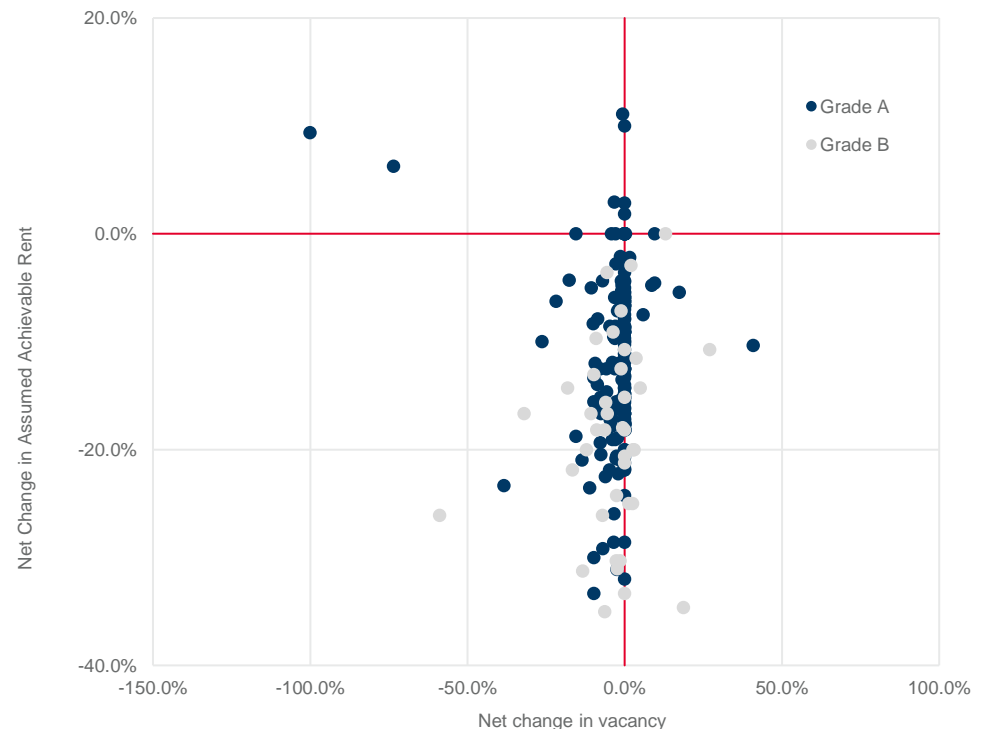
Source: Cushman & Wakefield

VACANCY CHANGE FROM Q4 2019



Source: Cushman & Wakefield

Grade A/B Office Buildings : NET CHANGE OF RENT AND VACANCY (Q4 2019 / Q3 2023)



Source: Cushman & Wakefield



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	3.7%	-1.1%		2.1%	-0.9%		189,720	0	0	\$110.27	0.6%		\$102.10	-0.8%	
Kyobashi / Yaesu / Nihonbashi	6,507,474	6,305,742	4.7%	-9.0%		3.1%	-7.7%		501,075	0	371,632	\$98.95	-1.6%		\$93.14	-0.9%	
Shibuya	4,030,342	4,002,130	1.0%	0.6%		0.7%	0.7%		119,121	147,334	1,348,156	\$97.07	-0.9%		\$90.42	-0.3%	
Roppongi	7,304,504	7,048,847	5.4%	-4.5%		3.5%	-0.7%		51,132	0	0	\$93.91	-1.9%		\$82.43	-1.8%	
Toranomon / Kamiyacho	8,349,443	7,071,979	17.3%	14.9%		15.3%	14.7%		2,072,744	3,320,032	0	\$93.96	-2.2%		\$82.31	-4.3%	
Kasumigaseki / Uchisaiwaicho	3,540,147	3,494,125	1.4%	-1.4%		1.3%	0.3%		-10,620	0	0	\$83.71	-1.0%		\$75.53	-0.4%	
Akasaka	3,365,362	3,230,747	4.5%	-1.3%		4.0%	0.9%		-30,288	0	1,518,838	\$80.70	-1.9%		\$74.77	-1.6%	
Bancho / Kojimachi	2,448,487	2,389,723	2.4%	-3.4%		2.4%	-2.2%		53,867	0	0	\$78.86	-0.9%		\$71.99	-0.2%	
Shimbashi / Shiodome	4,121,542	3,940,195	6.1%	-8.1%		4.4%	-6.8%		280,265	0	170,890	\$79.37	0.9%		\$71.13	1.6%	
Shibaura / Kaigan	2,382,800	2,239,832	10.6%	9.3%		6.0%	4.7%		-111,992	0	0	\$74.67	-3.6%		\$69.76	5.0%	
Hamamatsucho/ Onarimon	3,574,912	3,428,340	4.2%	-9.4%		4.1%	-7.7%		275,268	0	0	\$75.61	-0.9%		\$69.10	3.7%	
Mita / Tamachi	3,602,951	2,741,846	24.2%	12.6%		23.9%	16.0%		1,200,980	1,929,914	0	\$72.95	1.9%		\$65.62	3.3%	
Shinagawa Konanguchi	4,843,314	4,785,194	7.4%	3.8%		1.2%	-1.6%		77,493	0	0	\$71.46	-2.9%		\$65.11	-2.3%	
Nishi-Shinjuku	3,658,390	3,460,837	12.9%	7.1%		5.4%	2.9%		209,989	324,187	0	\$67.36	-4.7%		\$63.36	3.8%	
Harumi / Kachidoki	3,202,177	2,343,993	28.3%	-1.2%		26.8%	16.0%		-512,348	0	0	\$43.88	0.0%		\$37.93	-0.3%	
Central 5 Wards	101,065,076	95,910,758	7.1%	0.0%		5.1%	0.7%		4,762,267	5,721,467	3,557,636	\$87.66	-0.9%		\$80.11	-0.7%	

Submarkets in blue have more than a million square feet of new supply within a year.

(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	2,840,239	2,695,387	37,570	-0.9%	34,335	-0.7%

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 = 144.53 JPY (quarterly average)



KEY LEASE TRANSACTIONS Q3 2023

TENANT	INDUSTRY	PROPERTY	SUBMARKET	FORMER LOCATION	SUBMARKET	RSF	REASONS FOR RELOCATION
Mitsubishi Heavy Industries	Manufacturing	Tamachi Tower	Mita / Tamachi	(Undisclosed)	-	383,517	Consolidation
Fujitsu	Manufacturing	-	-	Shiodome City Center	Shimbashi / Shiodome	Termination (▲355,000 ~320,000)	Consolidation
Denso	Manufacturing	Shintora Yasuda Bldg	Shimbashi / Shiodome	(incl.) W Building, Tokyo Nihonbashi Tower	(incl.) Shinagawa Konanguchi	99,633	Consolidation
The Master Trust Bank of Japan	Financial Services	Akasaka Intercity Air	Akasaka	MTBJ Building, Hamamatsucho TS Building	Hamamatsucho/ Onarimon	83,621	Location Upgrade
Companies related to Idemitsu Kosan	Electricity, gas, heat supply and water	Shinagawa Intercity Bldg.C	Shinagawa Konanguchi	(Undisclosed)	-	71,167	Consolidation
Goldwin	Retail & Wholesale	Seiho Building	Aoyama / Omotesando	Goldwyn Head Office Building/Shibuya Prime Plaza Building	Shibuya	64,050	Consolidation
Tokyo Electron Device	Manufacturing	Shibuya Sakura Stage SHIBUYA Tower	Shibuya	Yokohama East Square Building, Shinjuku Park Tower, Sumitomo Fudosan Nishi Shinjuku Building 4-gokan	Yokohama, Nishi Shinjuku	59,780	Consolidation

Source: Nikkei Real Estate Market Report

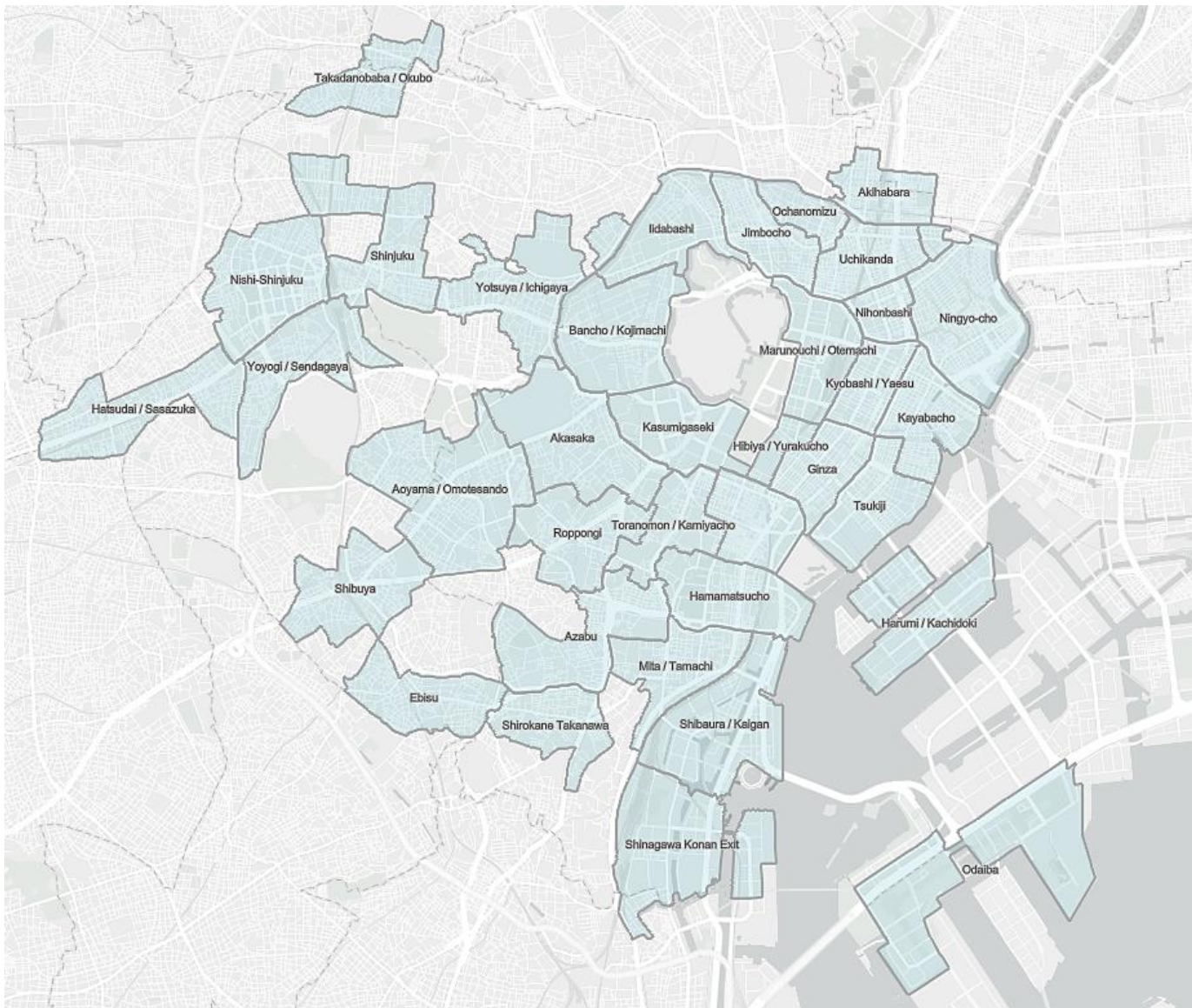
KEY PLANNED GRADE A OFFICE SUPPLY Q3 2023

PROPERTY	SUBMARKET	MAJOR TENANT	TYPICAL FLOOR AREA (SF)	ASSUMED GROSS FLOOR AREA (SF)	PLANNED COMPLETION	OWNER / DEVELOPER
Shibuya Sakura Stage SHIBUYA Tower	Shibuya	Square Enix, Tokyo Electron Device	14,241	1,988,298	Nov-23	Tokyu Land
Akasaka Green Cross	Akasaka	-	11,397	796,356	May-24	Nippon Life Insurance / Sekisui House
Akasaka Trust Tower	Akasaka	-	36,470	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	1,156,208	Feb-25	Nippon Steel Kowa Real Estate / Daichi Life Insurance
Shibaura 1-chome Project Tower S	Shibaura / Kaigan	Nomura Real Estate Development	55,368	2,959,356	Feb-25	East Japan Railway / Nomura Real Estate Development
Takanawa Gateway City Complex Building I North Tower	Shinagawa Konanguchi	KDDI	53,375	3,053,406	Mar-25	East Japan Railway
Takanawa Gateway City Complex Building I South Tower	Shinagawa Konanguchi	-	35,583	1,899,897	Mar-25	East Japan Railway
Tokyo Station Yaesu 1-chome East B District Redevelopment	Kyobashi / Yaesu / Nihonbashi	-	26,865	2,422,558	Jul-25	Tokyo Tatemono

Source: Cushman & Wakefield



Tokyo Central 5 Wards Submarkets



The scope of market survey / Office grade definition

	Grade: Grade A / B Office in Central 5 Wards
Surveyed	Number of Buildings: 208/333
	Net Leasable Area: 101.1 msf / 52.7 msf
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

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.comA CUSHMAN & WAKEFIELD
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