

MARKETBEAT TOKYO

Office Q4 2023



y-o-y
Chg

12-Mo.
Forecast

4.9%
Vacancy Rate



5,064K
Net Absorption, SF



-0.1%
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 Q4 2023

y-o-y
Chg.

12-Mo.
Forecast

8.4M
Tokyo
Employment²



2.6%
Tokyo
Unemployment Rate²



2.6%
Japan
Unemployment Rate³



Source: Tokyo Metropolitan Government, MIC

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

² Average for Q3 2023

³ As of September 2023

⁴ Real GDP seasonally adjusted consensus estimate, annualized

⁵ Ministry of Finance. These figures are as of Q4 2023 and for "Corporations with capital of 1 billion yen or over" of "All industries" under the jurisdiction of Kanto Local Finance Bureau

⁶ Oxford Economics

ECONOMY: Tokyo's Employment Recovery Continues, Led by Growth in Technology Sector

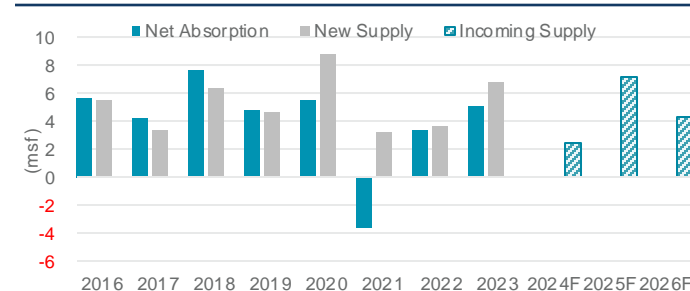
Japan's annual real GDP growth is expected to decelerate to 1.0%⁴ in 2024 from 1.6%⁴ in 2023 as global economies continue to normalize from the pandemic. According to the quarterly corporate earnings survey conducted by the Ministry of Finance, improving corporate earnings through Yen weakness started to decelerate with the aggregate ordinary income in Q4 2023, down 5% y-o-y, led by weakness in the manufacturing sector, down 10% y-o-y⁵. Tokyo's unemployment rate ticked up by 0.4pp from Q3 2019, as an increasing number of young employees opted out of the workplace. However, the overall rising labor participation rate lifted Tokyo's total employment figure to 8.4 million, growing at CAGR of 1.0% from Q3 2019. This compares to the corresponding national employment growth rate of 0.1%. By industry, technology sector employment grew at CAGR of 1.2%, while the wholesale & retail sector fell by CAGR of minus 2.9%, both from the baseline figures as of Q3 2019.

SUPPLY & DEMAND: Expect Tight Supply-Demand Balance in 2024 With Fading Impact of Supply Cycle

The Tokyo Central 5 Wards Grade A office net absorption for the full-year 2023 was at 5,064 ksf, up 50.9% from the previous year. However, the vacancy rate increased 1.5pp y-o-y to reach 4.9% in Q4, with the availability rate up 0.5pp y-o-y to 6.8%, largely attributed to the volume of new supply through 2023 in the Toranomon/Kamiyacho and Mita/Tamachi submarkets. Elsewhere, the Harumi submarket remained soft, with the vacancy rate nearly doubling to 25.2% over the past twelve months. However, excluding these area-specific impacts in three submarkets, the Tokyo Central 5 Wards Grade A office vacancy rate remained stable at 2.4%, down 0.8pp y-o-y. Occupancy was at 70.5% for newly completed buildings in Q4 (NLA: 6.8 msf) and projected at 29.9% for incoming projects within the next twelve months (NLA: 2.7 msf). With scheduled incoming supply in 2024 slowing to 60% of the 10-year historical average, some landlords have opted to raise rents more quickly, while more tenants are pausing relocations until the next supply influx due in 2025, at nearly double the 10-year historical average.

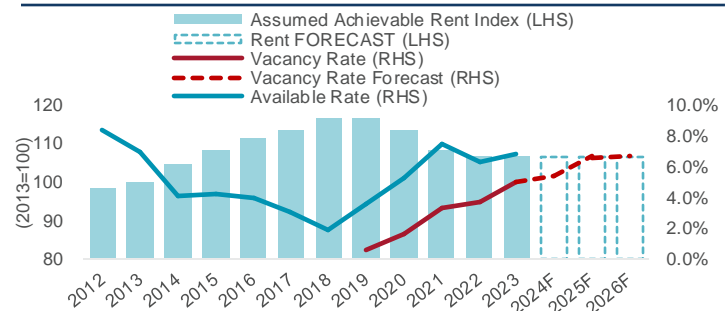
Employment growth in the Tokyo C5W has been outpacing corresponding growth in available office stock since 2016, leading to office space per worker falling by 18%. With projected employment growth at 5Y CAGR of 1.6% until 2025⁶, anchored by growing technology employment at 6Y CAGR of 4.5%⁶, overall demand is expected to remain stable. Key tenant relocation criteria also reveal growing demand for upgrades, better locations, and/or higher-grade facilities. Despite strategic floor reductions following the pandemic, higher office attendance rates have led to a growing shortage of workspace, pushing more workers towards serviced office providers. More flexible use of office space is likely to limit further demand weakness, leading to tighter market conditions ahead at least during the relative pause in new supply scheduled for 2024.

NET ABSORPTION/ INCOMING SUPPLY



Source: Commercial Property Research Institute, Cushman & Wakefield

GRADE A OFFICE: VACANCY & RENT INDEX



Source: Cushman & Wakefield



PRICING: Rental Cycle Bottoming Out, Expect Near-Flat Rental Movements With a Shift to Inflationary Environment

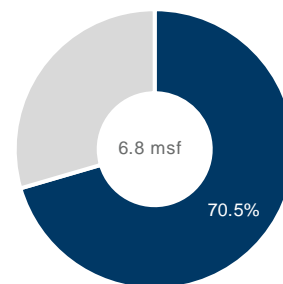
The Tokyo C5W Grade A average assumed achievable rent ("rent") softened by 0.1% y-o-y in Q4 2023 to record ¥34,532, with asking rent also ticking down by 0.8% y-o-y. Upward pressures on rents are emerging, with more transactions closing without offering sales concessions. Downward pressures on rents includes the incoming supply influx in 2025, bifurcated vacancy trends pressuring lower-quality buildings, and rising fit-out costs. According to the Construction Research Institute, the Tokyo office construction cost index has risen by 27.4% during the past eight years. However, more landlords in less competitive buildings are now opting to waive fit-out charges as an alternative tenant incentive to help match asking rent with achieved rent pricing.

Outlook

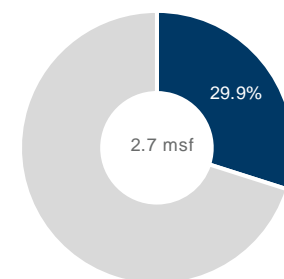
- **Expect nominal rent to remain near-flat.** We expect the net effective rent to decline around 2% on real terms over the next two years. Ongoing demand recovery led by employment growth, input cost increases, and incoming supply at higher-than-average rent pricing are likely to limit further downside in rents. We recommend landlords to maintain a flexible leasing strategy. We recommend tenants to explore more diversified leasing strategies as options of longer free-rent periods and/or reduced cost charge-back to tenants may become available.
- **Expect a temporary pause in vacancy rates in 2024 followed by an uptick toward 6% in 2025.** We expect Tokyo C5W Grade A office vacancy to remain steady during the relative supply pause in 2024, followed by a measured rise towards 6% over the next two years. With new supply then doubling from 2025, excess supply over stable office demand is likely to expand vacancy in lower-grade buildings.

PRE-COMMITMENT % OF NEW BUILDINGS AND INCOMING SUPPLY

Jan. 2023 – Dec. 2023 New buildings

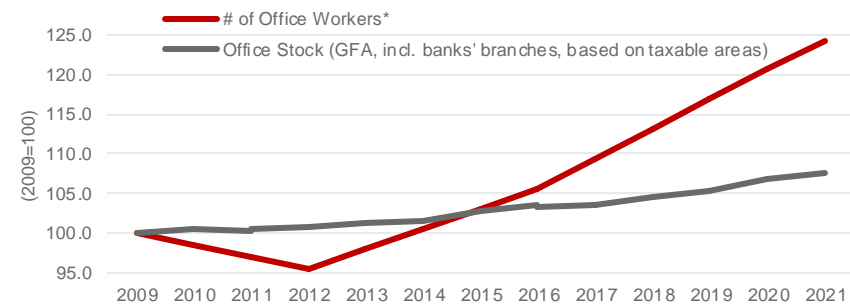


Jan. 2024 – Dec. 2024 Incoming Supply



Source: Cushman & Wakefield

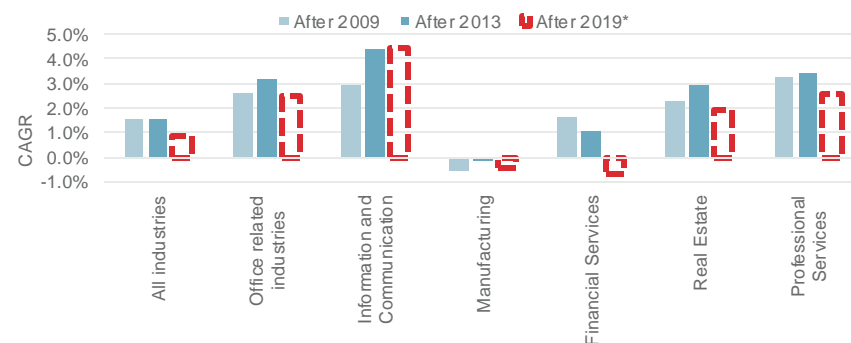
Tokyo C5W: # of Office Workers and All Grade Office Gross Floor Area since 2009



*Calculated by multiplying workers from Labour Force Survey by percentage of office workers estimated by based on Population Census

Source: Statistics Bureau of Japan, Tokyo Metropolitan Government, Cushman & Wakefield

Tokyo: Employment Growth CAGR of Major Industries (2015-2025F)



*The figures for "After 2009" and "After 2013" are 10Y CAGRs while the figures for "After 2019" are 6Y CAGRs until 2025

Source: Tokyo Metropolitan Government, Oxford Economics, 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	20,577,470	3.2%	-1.7%		2.4%	0.1%		-16,838	0	0	\$107.53	-0.4%		\$99.77	0.0%	
Shibuya	5,109,940	5,036,902	1.8%	1.5%		1.4%	1.4%		1,153,893	1,226,931	268,559	\$98.90	2.8%		\$93.57	4.5%	
Ky obashi / Yaesu / Nihonbashi	6,507,474	6,330,441	4.5%	-3.1%		2.7%	-2.2%		144,316	0	371,632	\$96.75	-1.6%		\$91.88	0.5%	
Toranomon / Kamiyacho	8,349,443	7,054,508	18.6%	15.8%		15.5%	14.5%		2,076,827	3,320,032	0	\$91.87	-2.2%		\$80.01	-3.3%	
Roppongi	7,304,504	6,987,061	6.0%	-2.9%		4.3%	-1.0%		73,543	0	181,234	\$90.74	-3.1%		\$79.38	-2.3%	
Akasaka	3,365,362	3,282,038	3.1%	-3.0%		2.5%	-1.3%		45,063	0	1,518,838	\$79.38	-1.1%		\$74.11	-0.2%	
Kasumigaseki / Uchisaiwaicho	3,540,147	3,503,556	1.2%	-1.7%		1.0%	-0.3%		11,709	0	0	\$81.85	0.0%		\$73.85	0.0%	
Bancho / Kojimachi	2,448,487	2,448,487	1.9%	-2.0%		0.0%	-3.9%		94,825	0	0	\$78.73	1.7%		\$72.82	3.2%	
Shimbashi / Shiodome	4,121,542	3,948,539	4.7%	-5.5%		4.2%	-2.3%		96,063	0	170,890	\$77.61	0.7%		\$69.55	1.3%	
Shibaura / Kaigan	2,382,800	2,208,988	9.2%	5.2%		7.3%	6.0%		-142,586	0	0	\$73.01	-4.6%		\$68.21	-2.8%	
Hamamatsucho/ Onarimon	3,574,912	3,557,842	0.6%	-11.5%		0.5%	-9.3%		331,631	0	0	\$73.93	-0.9%		\$67.03	1.8%	
Mita / Tamachi	3,602,951	2,783,127	29.4%	12.0%		22.8%	15.7%		1,228,701	1,929,914	0	\$71.32	2.8%		\$64.34	5.9%	
Shinagawa Konanguchi	4,843,314	4,698,457	5.3%	1.8%		3.0%	0.2%		-11,930	0	0	\$69.88	-2.9%		\$63.66	-2.3%	
Nishi-Shinjuku	3,658,390	3,496,465	12.0%	6.7%		4.4%	2.6%		223,846	324,187	0	\$66.13	-1.7%		\$62.23	1.3%	
Harumi / Kachidoki	3,202,177	2,398,080	26.8%	-3.1%		25.1%	13.2%		-423,859	0	0	\$42.90	0.0%		\$37.52	0.6%	
Central 5 Wards	102,144,674	97,122,675	6.8%	0.5%		4.9%	1.5%		5,063,881	6,801,065	2,659,273	\$85.96	-0.8%		\$78.78	-0.1%	

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	2,870,579	2,729,445	37,678	-0.8%	34,532	-0.1%

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 = 147.82 JPY (quarterly average)



KEY LEASE TRANSACTIONS Q4 2023

TENANT	INDUSTRY	PROPERTY	SUBMARKET	FORMER LOCATION	SUBMARKET	RSF	REASONS FOR RELOCATION
Goldman Sachs Japan and its related companies	Financial Services	Toranomon Hills Station Tower	Toranomon / Kamiyacho	Roppongi Hills Mori Tower	Roppongi	213,500	(Undisclosed)
IBM Japan	TMT	Toranomon Hills Station Tower	Toranomon / Kamiyacho	Mitsui Warehouse Hakozaki Bldg.	Ningyo-cho / Hama-cho	53,375	Location Upgrade
Edwards Lifesciences Corporation.	Manufacturing	Shinjuku Front Tower	Nishi-Shinjuku	Nittochi Nishi Shinjuku Bldg	Nishi-Shinjuku	53,375	(Undisclosed)
Marubeni I-DIGIO Holdings and its related companies	TMT	Sumitomo Fudosan Iidabashi First Tower	Kyobashi / Yaesu / Nihonbashi	Ueno Frontier Tower, Sumitomo Fudosan Shinjuku Garden Tower, Igarashi Bldg, Shinjuku 6-chome Bldg.	Taito/Ueno, Nishi-Shinjuku, Shibaura/Kaigan, Shinjuku	53,375	Consolidation
Philips Japan	Retail & Wholesale	Azabudai Hills Mori JP Tower	Toranomon / Kamiyacho	Phillips Bldg.	Shinagawa Konanguchi	39,142	Location Upgrade

Source: Nikkei Real Estate Market Report

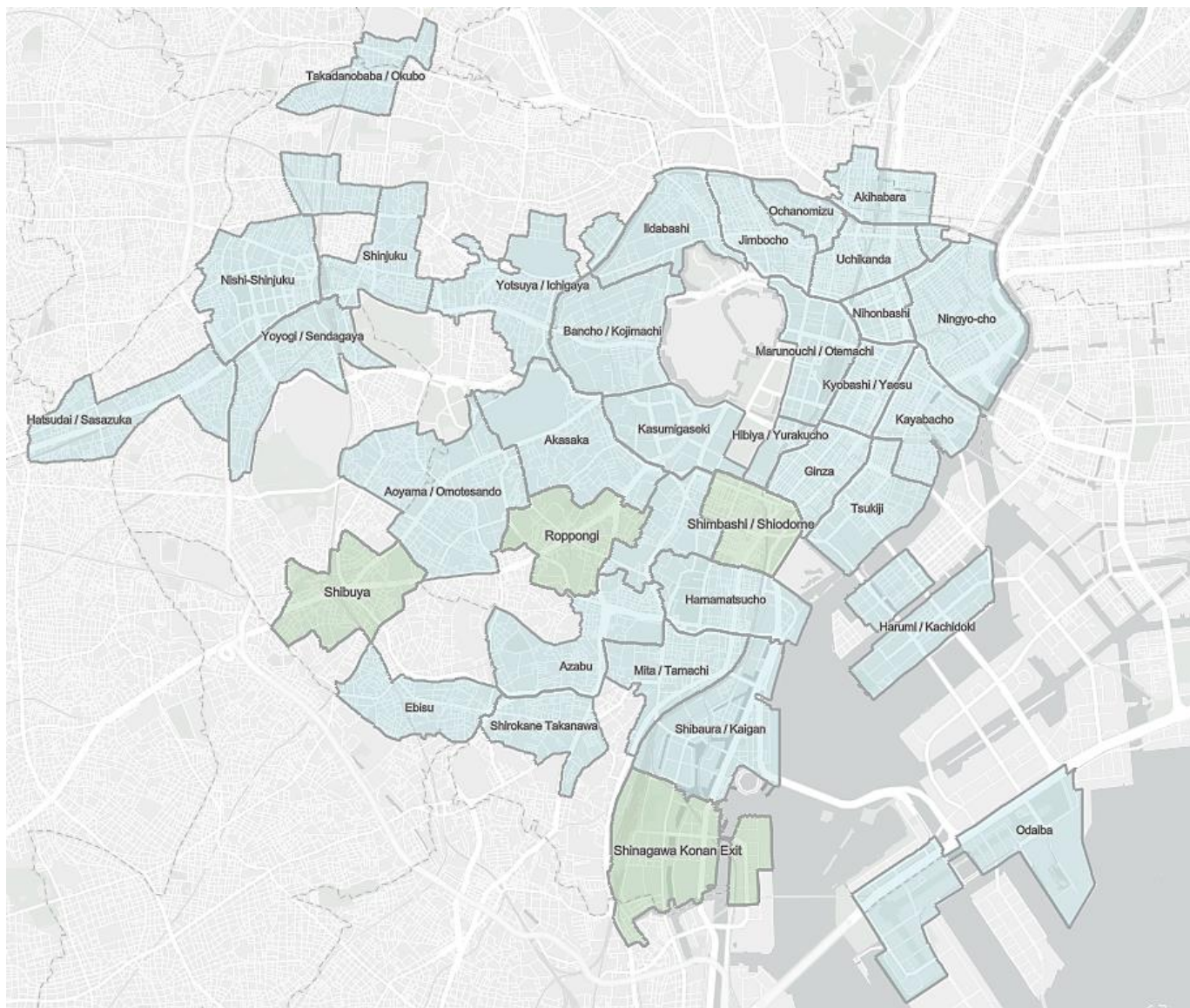
KEY PLANNED GRADE A OFFICE SUPPLY Q4 2023

PROPERTY	SUBMARKET	MAJOR TENANT	TYPICAL FLOOR AREA (SF)	ASSUMED GROSS FLOOR AREA (SF)	PLANNED COMPLETION	OWNER / DEVELOPER
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
Uchikanda 1-chome Project	Uchikanda	-	22,327	919,237	Nov-25	Mitsubishi Estate

Source: Cushman & Wakefield



Tokyo Central 5 Wards Submarkets (Green submarkets have over 30% IT office workers)



The scope of market survey / Office grade definition

Grade: Grade A / B Office in Central 5 Wards	
Surveyed	Number of Buildings: 209/333
	Net Leasable Area: 102.1 msf / 52.8 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

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