MARKETBEAT

TOKYO

Office Q4 2019

	YoY Chg	12-Mo. Forecast
0.78% Rental Growth, YoY		
1.64% Vacancy Rate		
1.35% Absorption, QoQ		

Source: BLS (Economic Indicators are representative of specific county or MSA.)

U.S.ECONOMIC INDICATORS Q4 2019

	YoY Chg	12-Mo. Forecast
1.8% Real GDP Growth		
0.3% Core CPI Growth		
2.4% Unemployment		

Source: Cabinet Office, Statistics Bureau. GDP Growth is annualized, based on the real seasonally-adjusted quarterly figure. Core CPI is YoY figure, seasonally-adjusted

Consumption Tax Hike Impacts Economic Indicators More Than Prior Hike

GDP in the third quarter (annualized YoY) was revised up to 1.8% prior to the consumption tax hike, showing relatively high growth. Private Capital Expenditure was strong as companies tried to cope with cashless payment and labor saving before the hike. Domestic demand such as Private Consumption and Private Residential Investment also was strong. At the prior consumption tax hike, at Q1 2014, private consumption grew by 2.0%. This time it grew by only 0.5%. Retail sales in October dropped 7% y-o-y, compared to 4% down at the previous tax hike. The CPI continued to grow at just 0.3% in September, reflecting oil price falls and communication charges by mobile phone providers. Although crude oil spot prices had increased rapidly earlier this year due to Middle East geopolitical risks, tensions have receded and the price is now below pre-rise levels. However, the risk of rebound remains. In the two months following the tax hike the CPI rose 0.5%, showing no boost from the tax hike compared with the 1.8 pp increase following the prior hike. Unemployment remains low, but the real wage index for 2019 (January to November) is in negative growth y-o-y apart from September. With firms increasing their retained earnings and with wages stagnant, consumption remains weak. CPI growth is expected to remain low.

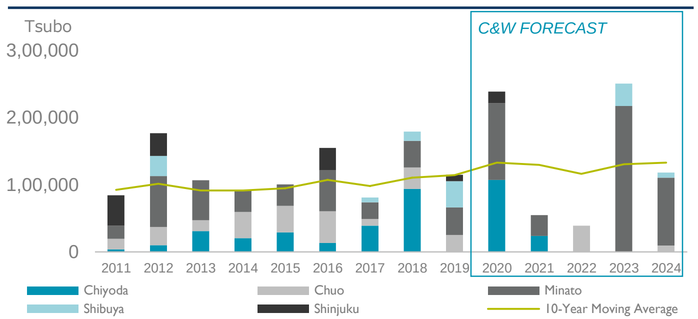
Office Rent in Central Five Wards Expected to Remain Bullish in 2020

Asking rent of Tokyo Grade A office at the end of 2019 was 37,736 yen, up 0.78% YoY, and the vacancy rate was 1.64%, down 0.15 pp. With low vacancy new office completions have enjoyed strong demand, supporting continuing rising rents. There will be limited impact on Grade A office rents through the year unless a recession is confirmed. Despite the economic slowdown the negative interest rate policy is expected to remain for the short-term. Despite a doubling of annual new supply the market will continue to be favorable for owners. Tokyo's working-age population is forecast to continue to growth until 2025, contributing sustained high demand for Grade A office buildings.

High Occupancy Rate in Tech Hub Area Reflect Fourth Industrial Revolution Expectations

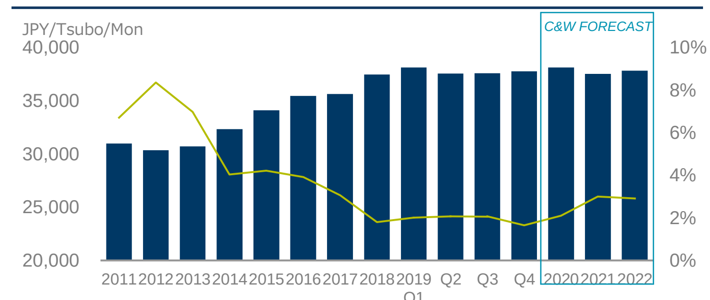
New supply in Q4 2019 was concentrated in Shibuya Ward, with three major completions. With the opening of Scramble Square, PARCO, and Fukuras (New Tokyu Plaza), the city is also attracting attention for sightseeing and F&B, as well as office workers. With large tech firms clustering around Shibuya Station, five major new completions entered the market at almost full occupancy. Rent for large office buildings in Shibuya Ward in Q3 rose 10.8% y-o-y, the only double-digit growth rate in the Central Five Wards. The rental differential between Shibuya Ward and Chuo Ward (the second most expensive market after Chiyoda Ward) has closed to just 160 yen. The growth in Shibuya Ward has become clear, with the differential down from around 1,470 yen a year ago. The Marunouchi / Otemachi area, with the financial sector main tenant segment shrinking, is now hosting events to attract startups and tech companies. Nonetheless, three large office buildings scheduled in the sub-market to be completed this year have few vacant spaces left due to the area's strong popularity.

New Supply (Tokyo 5 Wards)



Source: Cushman & Wakefield

Asking Rent & Vacancy Rate (Tokyo 5 Wards)



(Source: Cushman & Wakefield. Each figure shows year-end figure unless specified. Grade A Office: buildings with gross floor space of above 30,000 square meters, located in the CBD 5 wards of Tokyo.

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TOKYO

Office Q4 2019

MARKET	VACANCY RATE	ABSORPTION RATE	STOCK (RENTABLE)		ABSORBED AREA (RENTABLE)		GRADE A ASKING RENT		
			TSUBO	SF	TSUBO	SF	JPY/TS/MO	USD/SF/MO	EUR/SF/MO
TOKYO CBD GRADE A TOTAL	1.64%	1.35%	3,387,759	120,547,645	44,444	1,581,466	37,736	9.68	8.65

EUR/JPY = 109.56 *EUR/JPY = 122.54*

MAJOR TENANT RELOCATION TO GRADE A OFFICE

TENANT	EXPECTED RELOCATION TIMING	INTO		FROM		EXPECTED OCCUPIED SPACE	
		BUILDING	SUBMARKET	BUILDING	SUBMARKET	TSUBO	SF
Idemitsu Kosan	Fiscal 2020	Otemachi One Tower	Marunouchi / Otemachi	-	-	5600~6800	199,266~241,966
TIS, INTEC	Fiscal 2021	Toyosu 2-chome Station Front District Redevelopment Block 2-1 Tower AC	Toyosu	Sumitomo Fudosan Shinjuku Grand Tower, Company-owned building	Nishi-Shinjuku / Koto	10,000	355,833
Dell, EMC Japan	August 2021 to January 2022	Otemachi One Tower	Marunouchi / Otemachi	Solid Square East Tower, Shinjuku Mines Tower	Kawasaki / Yoyogi	7,800	277,550
Suntory Group	Spring 2021	msb Tamachi Station Tower N	Shibaura	Tokyo Square Garden, Company-owned building	Kyobashi / Daiba	7,000	249,083
Isuzu Motors	May 2022	Yokohama Gate Tower	Minatomirai	Omori Bellport Tower A	Shinagawa	2,990	106,394

Source: Nikkei Real Estate Market Report

MAJOR GRADE A OFFICE SUPPLY 2019

STATUS	PROPERTY	SUBMARKET	WARD	EST. GROSS FLOOR SPACE (INC. NON-OFFICE)		COMPLETION
				TSUBO	SF	(Inc. Expected)
Completed	Shinagawa HEART	Shinagawa(Konan)	Minato	11,074	394,049	Feb
	Ameba Towers	Shibuya	Shibuya	11,480	408,496	Feb
	Nihonbashi-Muromachi Mitsui Tower	Nihonbashi	Chuo	50,820	1,808,343	Mar
	SHIBUYA SOLASTA	Shibuya	Shibuya	14,203	505,390	Mar
	Urbannet Uchisaiwaicho Bldg	Shinbashi	Minato	10,920	388,570	Jun
	Museum Tower Kyobashi	Kyobashi	Chuo	12,656	450,342	Jul
	Okura Prestige Tower	Toranomon	Minato	54,479	1,938,543	Jul
	Link Square Shinjuku	Shinjuku	Shibuya	13,237	471,016	Aug
	Sumitomo Fudosan Shinjuku Central Park Tower	Nishi-Shinjuku	Shinjuku	18,760	667,543	Aug
	SHIBUYA FUKURAS	Shibuya	Shibuya	17,847	635,055	Oct
	Shibuya Parco Rebuilt Proj	Shibuya	Shibuya	19,360	688,893	Oct
	Shibuya Scramble Square East Tower	Shibuya	Shibuya	54,752	1,948,257	Oct
Under Construction	Toranomon Hills Business Tower	Toranomon	Minato	52,332	1,862,145	Dec

Source: Nikkei Real Estate Market Report

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