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CBRE releases latest market trends for office buildings in Japan
Tokyo Grade A Vacancy Rate Falls Below 1% for First Time Since Q2 2007
Rents rise across all cities and building grades; Osaka Grade A rents at record high

CBRE today released market trends for office buildings in Japan.

HIGHLIGHTS FOR MAJOR CITIES

- ◆ Tokyo Grade A vacancy rate fell 0.5 points q-o-q to 0.9%, edging below 1% for the first time in 11 years (since Q2 2007)
- ◆ While the Osaka Grade A vacancy rate rose 0.7 points q-o-q to 0.9%, rents reached their highest level since CBRE's survey began
- ◆ Nagoya Grade A vacancy rate fell 0.3 points q-o-q to 0.6%, a record low

CBRE RENT FORECASTS (Q3 2018 – Q3 2019)

- ◆ Tokyo Grade A rent outlook revised upward: Forecast to increase by 1.5% over the next year
- ◆ Osaka Grade A rents: Forecast to increase by 4.6% over the next year
- ◆ Nagoya Grade A rents: Forecast to increase by 2.8% over the next year

■Tokyo 23 Wards

Four Grade A buildings were completed in Q3 2018. All four buildings were close to full occupancy upon completion, driven by large companies' consolidation needs and/or upgrade demand. Take-up was also seen in existing buildings, which led to a net absorption of 76,000 tsubo, the second highest level after 79,000 tsubo in Q2 2014. As a result, the **Tokyo Grade A vacancy rate** fell 0.5 points q-o-q to 0.9%, dropping below 1% for the first time in 11 years, since Q2 2007. The **All-Grade vacancy rate** declined 0.2 points q-o-q to 0.9%, recording a new low for the second quarter running.

In the Grade A segment, there is very little available space in recently completed buildings or in properties due for completion in 2018, while the pre-leasing ratio for buildings scheduled for completion in 2019 is estimated to be more than 70%. Elsewhere, space in existing buildings vacated by tenants moving to the new buildings is being quickly taken up by existing tenants, meaning the vacancy rate is likely to remain low for longer.

Grade A rents rose 1.4% q-o-q in Q3 2018, exceeding the average growth rate of 0.7% during the last four quarters. CBRE has marginally revised up its rental forecast as the pre-leasing ratio for upcoming Grade A buildings is higher than originally anticipated. Grade A rents are now forecast

to increase by 1.5% over the next year, followed by a decline of around 1.1% in the following year.

Takashi Katono, executive director of CBRE's Advisory & Transaction Services (Office), commented: "There continues to be solid relocation demand among IT and services companies. A large number of companies are considering relocation to upgrade their offices and to thereby recruit and retain talents. While companies remain cautious towards rents, they are already starting to seek space in buildings due for completion in 2020, when there will be a substantial supply of new properties."

■ Osaka

The **Osaka All-Grade vacancy rate** stood at 1.9% in Q3 2018, unchanged q-o-q, at a record low level for the third consecutive quarter. While the period saw new supply for the first time in a year, this did not alleviate the tight market conditions. There remains a severe shortage of space relative to the robust demand from tenants seeking to establish new offices or relocate to larger premises.

The **Grade A vacancy rate** increased 0.7 points q-o-q to 0.9%, primarily due to a newly completed building having vacant space. While the property was not fully occupied, it did achieve a high level of occupancy, with tenants including a major coworking operator. As such, the tight supply-demand situation still persists, with the vacancy rate remaining below 1%. **Grade A rents** rose 2.6% q-o-q to JPY 23,650, the highest level since 2005, when CBRE's survey began monitoring this figure. Rents are expected to rise further in the coming quarters, and CBRE forecasts an increase of 4.6% over the next year.

Junichi Miyazaki, director of CBRE's Advisory & Transaction Services (Office), Kansai office, commented: "The long-awaited new supply has failed to resolve the space shortage, and the next phase of new supply will not commence until 2020. The market still remains challenging for the occupiers, with difficulty in securing the space they require, and rents continuing to rise."

■ Nagoya

The **Nagoya All-Grade vacancy rate** decreased by 0.1 point q-o-q to 1.3% in Q3 2018, falling for the second consecutive quarter to the lowest level since Q4 1993, when CBRE's survey began. Office space continues to be sought out by both large and small companies from a wide range of sectors, and 75% of the total number of buildings in the Nagoya office market is now fully occupied. During the quarter, several large units were occupied by companies who had looked to increase floor space or upgrade their location. In addition, tenants continue to expand within their existing building to take up the little remaining available space.

The **Grade A vacancy rate** also fell by 0.3 points q-o-q to 0.6%, setting a new low that surpassed the previous quarter's record low. **Grade A rents** rose by 2.0% q-o-q. There is still strong demand among tenants to relocate to larger premises, and in many cases, contracts are being signed at the owner's asking rent. The coming quarters are likely to see multiple tenants move out and relocate due to buildings being demolished to make way for development of the new linear Shinkansen station. This, combined with the lack of large-scale supply in the pipeline, is likely to ensure it remains a landlord's market. CBRE expects Nagoya Grade A rents to rise by 2.8% over the next year.

Hideo Oue, senior director of CBRE's Advisory & Transaction Services (Office), Nagoya office, commented: "There is strong demand among tenants in all sectors to move to larger premises. The speed of decision-making is also accelerating as companies compete to secure space. Despite this, some companies are still not able to secure the space they need by the time they need it, due

to the lower vacancy rate and supply shortage."

HIGHLIGHTS FOR REGIONAL CITIES

- ◆ **Saitama:** Rents rose by 2.5% q-o-q, reaching a record high
- ◆ **Kobe:** Vacancy rate fell below 2% for the first time
- ◆ **Fukuoka:** Rents rose by 3.6% q-o-q, a record high growth rate

Vacancy rates fell in eight out of the 10 surveyed regional cities compared with the previous quarter, and were flat in two cities. The little available space was filled as companies relocated to increase their floor space; establish new offices; or to upgrade their locations/buildings. In **Sapporo**, the vacancy rate again fell below 1% as tenants were secured for the large-scale building completed last quarter and spaces were taken up in existing buildings as well. In **Yokohama**, several large units were filled by R&D units of a leading manufacturer. In **Sendai**, companies continued to relocate due to the rebuilding of their current premises, while the vacancy rate set a record low for the fourth quarter running. In **Kobe**, the vacancy rate has fallen sharply over the past year, with a recent surge in demand due to concerns of a space shortage. This caused the vacancy rate to fall below 2% for the first time since Q4 1996, when CBRE's survey began tracking this data.

Assumed achievable rents rose in all 10 cities for the third consecutive quarter. Rental growth accelerated especially quickly in cities with a vacancy rate under 1%. In Fukuoka, where the space shortage is particularly acute, rents rose by 3.6% q-o-q, the highest ever quarterly growth. Elsewhere, rental growth exceeded 2% in **Saitama and Kyoto**, where there is a chronic space shortage, with rents in **Saitama** reaching a historical high of JPY 17,960.

■ **NATIONWIDE VACANCY RATES AND ASSUMED ACHIEVABLE RENT**

| | | Vacancy Rate | | | | | Average Assumed Achievable Rent | | | | |
|----------------|-------------------------|--------------|---------|---------|----------|----------|---------------------------------|---------|---------|--------|---------|
| | | Q3 2017 | Q2 2018 | Q3 2018 | q-o-q | y-o-y | Q3 2017 | Q2 2018 | Q3 2018 | q-o-q | y-o-y |
| Tokyo 23 Wards | Grade A | 2.5% | 1.4% | 0.9% | - 0.5pts | - 1.6pts | 36,500 | 36,550 | 37,050 | + 1.4% | + 1.5% |
| | Grade A-Minus | 1.6% | 1.1% | 1.1% | ± 0.0pts | - 0.5pts | 25,000 | 25,500 | 25,800 | + 1.2% | + 3.2% |
| | Grade B | 1.4% | 0.9% | 1.0% | + 0.1pts | - 0.4pts | 21,150 | 21,800 | 22,100 | + 1.4% | + 4.5% |
| | All-Grade | 1.7% | 1.1% | 0.9% | - 0.2pts | - 0.8pts | | | | | |
| | All-Grade Tokyo 5 Wards | 1.6% | 1.0% | 0.8% | - 0.2pts | - 0.8pts | | | | | |
| Osaka | Grade A | 0.3% | 0.2% | 0.9% | + 0.7pts | + 0.6pts | 21,800 | 23,050 | 23,650 | + 2.6% | + 8.5% |
| | Grade B | 2.5% | 1.6% | 1.4% | - 0.2pts | - 1.1pts | 12,200 | 12,800 | 13,050 | + 2.0% | + 7.0% |
| | All-Grade | 2.7% | 1.9% | 1.9% | ± 0.0pts | - 0.8pts | | | | | |
| Nagoya | Grade A | 4.6% | 0.9% | 0.6% | - 0.3pts | - 4.0pts | 24,350 | 25,250 | 25,750 | + 2.0% | + 5.7% |
| | Grade B | 2.6% | 1.3% | 1.2% | - 0.1pts | - 1.4pts | 12,450 | 12,750 | 12,900 | + 1.2% | + 3.6% |
| | All-Grade | 3.4% | 1.4% | 1.3% | - 0.1pts | - 2.1pts | | | | | |
| Yokohama | All-Grade | 6.0% | 3.7% | 3.1% | - 0.6pts | - 2.9pts | 14,550 | 14,760 | 15,040 | + 1.9% | + 3.4% |
| Saitama | All-Grade | 0.4% | 0.3% | 0.3% | ± 0.0pts | - 0.1pts | 16,500 | 17,520 | 17,960 | + 2.5% | + 8.8% |
| Sapporo | All-Grade | 0.5% | 1.1% | 0.9% | - 0.2pts | + 0.4pts | 12,590 | 13,530 | 13,680 | + 1.1% | + 8.7% |
| Sendai | All-Grade | 4.7% | 3.2% | 3.0% | - 0.2pts | - 1.7pts | 9,850 | 10,170 | 10,330 | + 1.6% | + 4.9% |
| Kanazawa | All-Grade | 7.2% | 6.7% | 6.5% | - 0.2pts | - 0.7pts | 10,080 | 10,320 | 10,370 | + 0.5% | + 2.9% |
| Kyoto | All-Grade | 0.7% | 0.7% | 0.4% | - 0.3pts | - 0.3pts | 12,870 | 13,500 | 13,810 | + 2.3% | + 7.3% |
| Kobe | All-Grade | 4.8% | 2.3% | 1.9% | - 0.4pts | - 2.9pts | 10,890 | 11,200 | 11,280 | + 0.7% | + 3.6% |
| Hiroshima | All-Grade | 2.8% | 3.0% | 2.9% | - 0.1pts | + 0.1pts | 10,670 | 11,030 | 11,130 | + 0.9% | + 4.3% |
| Takamatsu | All-Grade | 9.4% | 8.4% | 7.1% | - 1.3pts | - 2.3pts | 8,840 | 9,030 | 9,160 | + 1.4% | + 3.6% |
| Fukuoka | All-Grade | 0.6% | 0.5% | 0.5% | ± 0.0pts | - 0.1pts | 12,940 | 13,980 | 14,480 | + 3.6% | + 11.9% |

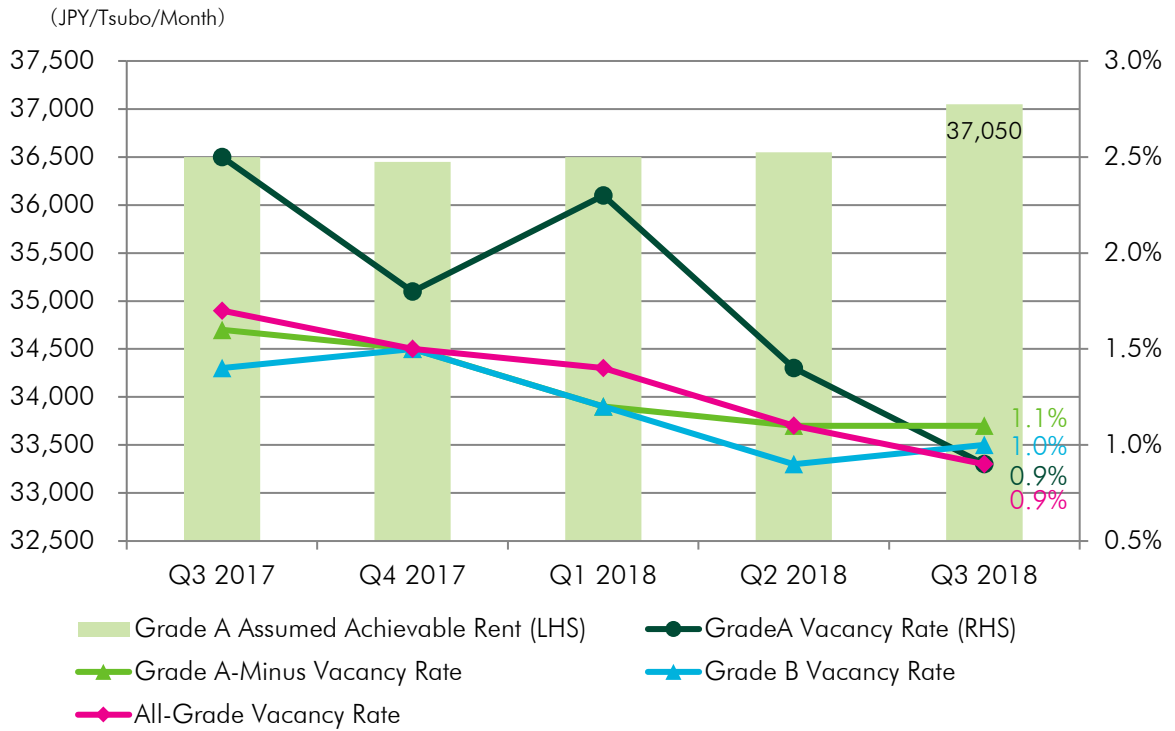
Source: CBRE, Q3 2018

■ **VACANCY RATES & RENT FORECASTS IN THREE MAJOR CITIES (GRADE A)**

| | | Vacancy Rate | | | Average Assumed Achievable Rent | | |
|----------------|---------|--------------|---------|------------|---------------------------------|---------|----------|
| | | Q3 2018 | Q3 2019 | Pts Change | Q3 2018 | Q3 2019 | % Change |
| Tokyo 23 Wards | Grade A | 0.9% | 1.3% | +0.4pts | 37,050 | 37,600 | +1.5% |
| Osaka | Grade A | 0.9% | 0.7% | -0.2pts | 23,650 | 24,730 | +4.6% |
| Nagoya | Grade A | 0.6% | 0.4% | -0.2pts | 25,750 | 26,480 | +2.8% |

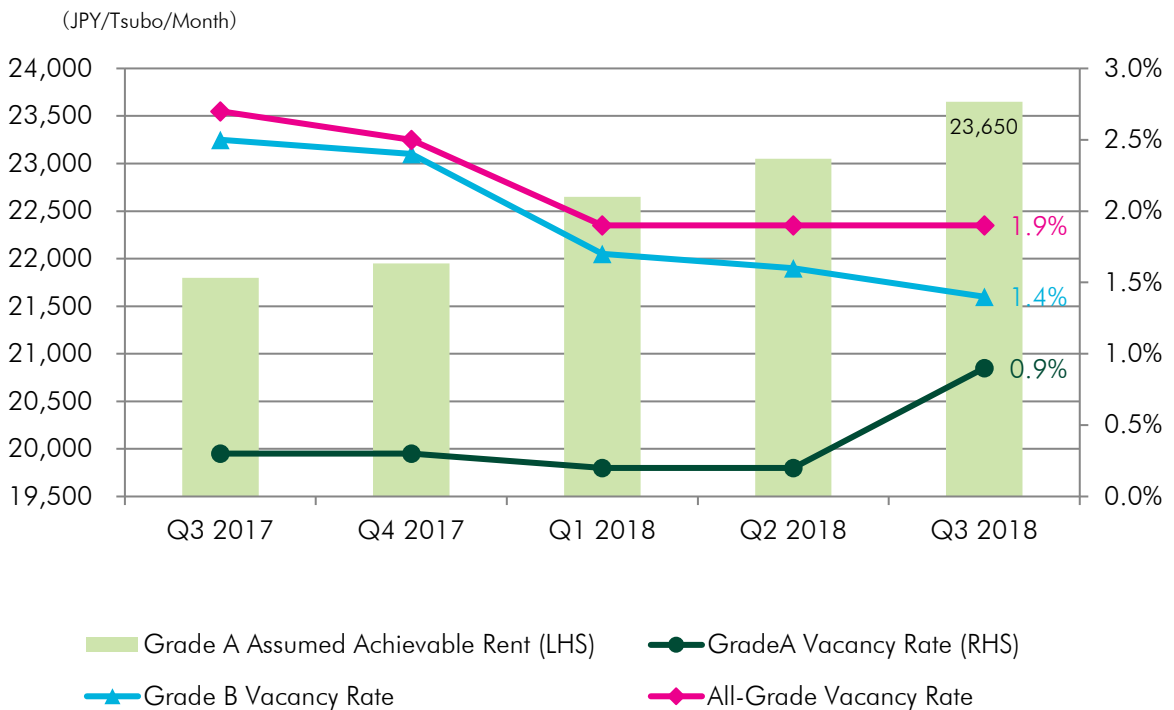
Source: CBRE, Q3 2018

■Tokyo



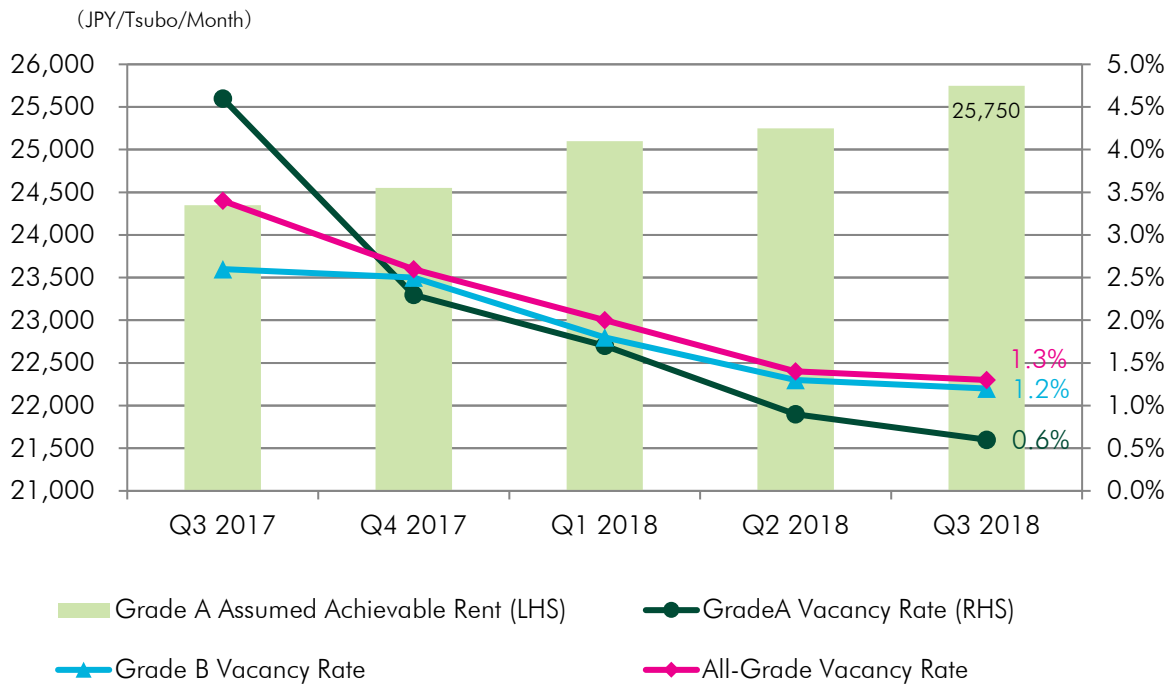
Source: CBRE, Q3 2018

■Osaka



Source: CBRE, Q3 2018

■ Nagoya



Source: CBRE, Q3 2018

| TERMS AND DEFINITIONS | |
|----------------------------------|---|
| Space Measurement | 1 tsubo = 3.3058 square meters = 35.58 square feet |
| Surveyed Buildings | Office buildings for lease located in office markets in 13 major cities nationwide, with gross floor area of 1,000 tsubo or more, and compliant with the new earthquake resistance standards. |
| Surveyed Period | Quarterly Vacancy rate: (1) End of March (2) End of June (3) End of September (4) End of December Quarterly Assumed achievable rents: (1) End of March (2) End of June (3) End of September (4) End of December Annual Vacancy rate: End of December each year Assumed achievable rents: January to December each year |
| Vacancy Rate | Vacancies are those that are ready to receive tenants at time of survey |
| Assumed Achievable Rent | Assumed achievable rent of floorplate (including common area maintenance fee) |
| Floor Space of New Supply | Leasing floor space of buildings completed during each period |
| Net Absorption | Difference between occupied floor space (floor space used by tenants) in a given period and that of the previous period |
| Grade A Samples | Tokyo 88, Osaka 27, Nagoya 11 (as of Q3 2018) |

| BUILDING GRADE DEFINITION | | | | | |
|---------------------------|--|--|---|---|---|
| | All-Grade | | | | |
| | Grade A | Grade A-Minus | Grade B | | |
| Location | Tokyo: Central 5 Wards* Osaka, Nagoya: Office area | Office area in Tokyo 23 Wards | Office area in Tokyo 23 Wards | Office area in Osaka & Nagoya | Office area in 13 cities nationwide set by CBRE |
| Size | GFA: 10,000 tsubo or more NLA: 6,500 tsubo or more Typical floor plate: Greater than 500 tsubo** | GFA: 7,000 tsubo or more NLA: 4,500 tsubo or more Typical floor plate: Greater than 250 tsubo (except Grade A) | GFA: 2,000-7,000 tsubo Typical floor plate: Greater than 200 tsubo (except Grade A & GradeA-Minus) | GFA: 2,000 tsubo or more (except Grade A) | GFA: 1,000 tsubo or more |
| Age | Less than 11 years | Buildings satisfying the 1981 anti-seismic standards | | | |

*Central 5 Wards: Chiyoda Ward, Chuo Ward, Minato Ward, Shinjuku Ward, Shibuya Ward **350 tsubo for Osaka and Nagoya

For further details of the market data in each city and an overview of market conditions, please refer to the Japan Office MarketView Q3 2018 released on October 30th, which is also available on the CBRE website.

<https://www.cbre.co.jp/en/research-reports/japan-research-archives>

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